

EQUITY IN FUNDING FOR IOWA'S PUBLIC SCHOOLS:
IS THIS AN ISSUE?

A Dissertation
Presented to
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Drake University

In Partial Fulfillment
of the Requirements for the Degree
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by Thomas J. Fish
May 2002

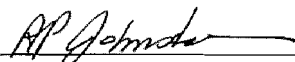
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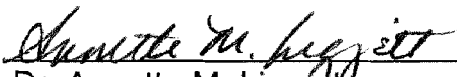
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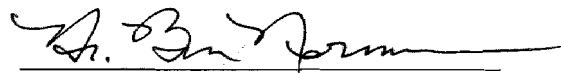
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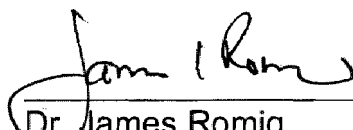
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EQUITY IN FUNDING FOR IOWA'S PUBLIC SCHOOLS: IS THIS AN ISSUE?

An abstract of a dissertation by

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May 2002

Drake University

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The problem. The problem of this study was to describe, analyze, and compare the education finance laws of three states, with particular attention to infrastructure and facility funding. Ohio and Texas entered the courts due to questions of equity in school facility funding and were selected for this study. Iowa faced litigation in March 2002 from a coalition of school districts concerned about equity in school infrastructure funding due to the Local Option Sales Tax Bill passed in 1988.

Procedures. Several states and their funding systems have been determined unconstitutional by State Supreme Courts in the past decade. Ohio continued to remain in litigation through February 2002 while Texas went through major finance reform to create a fully equalized system. A content analysis was completed on legal documents, state finance descriptions, property tax data, and governmental annual reports.

Findings. The analysis of data indicated several common factors were in place prior to court rulings of unconstitutionality. County-based revenue in the form of credits or taxing authority were specifically noted in State Supreme Court rulings. Initial lawsuits were based on the single issue of school facility funding but created a comprehensive review of the entire school finance plans. The heavy reliance on property tax at the local level was a specific component of the Court's rulings. Constitutional language was specific in Ohio and Texas but limited in Iowa causing debate for constitutionality.

Conclusions / Recommendations. It was concluded that because there were similarities in the financial systems of all three state, the Iowa system was in jeopardy of a court-based redress of their school funding system. If the case were to go to court, the proceedings would be predictably long and costly. It was recommended that an additional cent of sales tax for school infrastructure and property tax relief would provide equity over time in replacing local property tax to fund capital projects. Continued equalization efforts in the State Foundation plan to reach the 100 percent level would begin to level the playing field for low property wealth districts. A regional high school concept was suggested for revenue sharing between small districts. A sales tax clearinghouse for collection would recoup lost revenue due to Internet sales.

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Chapter 1

CONTENT OF STUDY

Over the past 10 years, the method for financing public schools has been declared unconstitutional in 18 states by their respective state supreme courts. The school-finance suits focused on the equity and adequacy of state funding. General fund budgets were not the sole focus of court litigation. Thirty-seven states provided various amounts of funding for school construction, renovation, or replacement of school facilities. The pursuit of funding equity became the legal strategy in challenging school finance systems. As the gap widened between rich and poor districts in the country, so did the services that students received when they arrived.

Court rulings in recent years defined an equitable system of school funding as one (1) where all school districts within a state received an adequate “foundation” level of funding sufficient to provide a basic education to all its students; (2) where adjustments were made in funding for districts with relatively large numbers of students in poverty, with limited English proficiency, and with disabilities; and (3) where local communities were allowed an “equal opportunity” to increase their school budgets by increasing local taxes. As state legislators wrestled with adequate funding for general programming and school facilities, the sources of funding were being increasingly scrutinized (Alexander & Alexander, 1992).

Only five states have never been sued over school-finance issues: Delaware, Hawaii, Iowa, Mississippi, and Nevada. The State of Hawaii consists

of only one school district, that one run by the state, so in effect there were only four states that could be challenged but have never reached litigation. In Iowa there is considerable concern that there is not equitable distribution of funds, especially for school facilities. School infrastructure funding was historically a local issue with property tax as the sole source of funding. In 1998 a new funding mechanism in the form of county-wide local option sales tax was instituted and allowed school districts to generate local infrastructure funding. Districts in retail centers had the ability to generate infrastructure funds at a much higher rate than rural counties. The disparity between districts on a per-pupil amount in potential sales tax revenue was in a ratio of 1:10. Louisa County, a rural county in southeastern Iowa, could only generate \$95 per student while Polk County, in the Des Moines metropolitan area, generated \$980 per student. The combination of property tax, with an inherent wide range of assessed valuation, and local option sales tax combined to make the major funding mechanism for school infrastructure in Iowa.

The legislative priorities for several education groups for the 2000-2001 session contained language to provide equitable funding for school infrastructure. The Iowa Association of School Boards completed its annual Delegate Assembly in the fall of 2001 and created resolution statements for presentation to the Iowa Legislature. The following two statements were ratified by the Delegate Assembly:

The Iowa Association of School Boards supports adequate state infrastructure funding for school districts, area

education agencies, and community colleges. Funding should be equitably distributed.

The Iowa Association of School Boards supports funding and legislation to equalize funding inequities existing in the local option sales and services tax, property tax, and other sources of revenue dedicated for school infrastructure.

(IASB, 2000)

The perceived inequities began to create a rural versus urban split in the Iowa Legislature. In the 1999-2000 legislative session, the Vision Iowa bill appropriated \$50 million for the following three years for school infrastructure.

The bill contained language that gave priority in a grant process for districts with limited capacity through property tax or potential sales tax. This was Iowa's first appropriation of revenue specifically set aside for school facilities. (See Appendix A.)

Purpose

Legislators, state educational leaders, school board members, community leaders, and school administrators found the comparative data and potential solutions in this study a valuable resource as Iowa strived to improve school facility funding. Litigation against the State of Iowa has been debated since 2000 solely due to the local option sales tax. The comparative data and possible funding options led to discussions at the state level to enhance current funding for school facilities in Iowa. The Iowa School Board Association, School

Administrators of Iowa, Iowa Department of Education, and influential legislative representatives from the House and the Senate have indicated an interest in this study.

Problem Statement

The problem of this study was to describe, analyze, and compare the education finance laws of three states, with particular attention to infrastructure and facility funding. Policy recommendations for the Iowa method of funding were made from this analysis.

Research Questions

The following research questions guided this study:

1. What were the school finance systems and how were school construction projects funded in Iowa, Ohio, and Texas?
2. How did the funding systems of the two states of Ohio and Texas compare to one another prior to the state Supreme Court rulings on constitutionality?
3. How did the funding systems of the states of Ohio and Texas compare to one another after finance reform due to the state Supreme Court rulings on constitutionality?
4. How did Iowa compare to the states of Ohio and Texas in school finance programming prior to the court rulings in each state?

5. How did Iowa compare to the states of Ohio and Texas in school finance programming following the court rulings in each state?
6. What recommendations could be made for Iowa from the direct comparisons made with Ohio and Texas prior to litigation and from finance reform implemented following court rulings?

Methodology

This three state comparative study focused on the funding mechanisms for school infrastructure in three states with recent history of court challenges or consideration for challenge to their school finance system. Selection criteria for the states that were compared to Iowa and the sources of data in this comparative study are described in detail. The sources of data included professional education associations, state governmental agencies, and court transcripts. The general school finance programs and terminology used in the litigation states leading up to the court challenges and the reforms necessary to meet constitutional muster are thoroughly described. These descriptions led to direct comparisons of Iowa to each state individually and comparisons within the three selected states. Final conclusions are reported and recommendations for potential solutions in Iowa are also provided.

Selection of States

Litigation of school funding systems were commonplace in the past decade. Several states across the nation and their respective supreme courts

determined their school funding systems did not meet constitutional muster. Eighteen states were challenged in their respective Supreme Courts and were ruled unconstitutional. The two states chosen for this study have been through litigation at the state Supreme Court level with an end result in violation of constitutional language. Iowa faced a law suit pending to challenge the local option sales tax for school infrastructure in early 2002. Funding for facilities was the impetus for declaring school funding inequitable and unconstitutional in the states of Ohio and Texas. These three states noted inequities in school facility funding as part of the ruling for unconstitutionality. Ohio's school funding was challenged in the courts twice since 1997 with rulings of unconstitutionality in 1997 and again in May of 2000 (*DeRolph v. State*, 1997, *DeRolph v. State*, 2000). The Ohio Supreme Court ordered mediation with a 4-3 ruling in November of 2001 and hired Howard S. Bellman to facilitate discussion with state leaders and the plaintiffs representing the coalition of school districts that sued the state. The mediation faced a deadline of mid-February. Mr. Bellman faced a 10 week deadline to bring the assistant attorney general representing the Republican majority legislators and Governor Taft, a lawyer representing the school district coalition, and a senator who represented the interests of the Democratic minority in the legislature to consensus on the school finance program in Ohio (Sandham, 2002).

Sources of Data

The general sources of data examined in this study included the state education associations, state governmental agencies, university studies, and court documents, including, transcripts of the most recent applicable court cases.

State Education Associations

The School Board Associations in the states of Iowa, Ohio, and Texas provided publications for their school board members on school finance. The publications were meant to give an overview of the often complicated school financing systems for new and existing board members. The general descriptions from each state school board association publication were utilized to define the entire school finance program including facility funding. The school board associations were also contacts for infrastructure capacity components including property tax rates, assessed property valuation, student enrollments, per-pupil expenditures, per-pupil funding, and unique facility funding options in each state.

The state teachers' associations were also data sources for many of the same district statistics that made up the school finance system. The National Education Association and respective state associations compiled student and district data for their membership and proved to be a valuable resource.

All three states also had active Associations of School Business Officials (ASBO) that produced similar manuals and publications. School district finance

managers and board secretaries had access to the statistical data on a statewide basis for budget calculations that addressed issues for infrastructure.

State Governmental Agencies

The State Departments of Education or State Departments of Management in each state were a critical data source for the same per-pupil costs, expenditures, and allocations. These two governmental agencies were able to supply data and information in the three states where litigation occurred. The school finance programs in place that led to court rulings in Ohio and Texas were essential in the state-to-state comparisons. Likewise, the educational finance reforms in place in these states followed supreme court rulings to meet the constitutional guidelines were also researched through the respective State Departments of Management and State Departments of Education. Historical records prior to litigation and following court intervention were found in these two governmental entities.

State Supreme Court Case Transcripts

The actual court transcripts from the state supreme court cases in Ohio and Texas provided information and data on the factors that were present that caused the initial legal action. The funding issues that were present that led to the question of constitutionality were examined in the state comparisons. The court rulings and directives from the court that led to state school finance reform provided information gained from the individual court transcripts. The case law

and rulings from each state were researched for factors and conditions that became the grounds for dismissing the school finance structure. Additional challenges and court rulings in successive years created changes in funding for school facilities while providing insight into finance reforms. These factors and conditions that rendered the funding systems unconstitutional were thoroughly compared to Iowa's school finance program to find differences and commonalities. Individual law firms involved in initial court cases were also contacted for additional reference.

State Funding Descriptions

A general description of the three school finance systems in the states of Iowa, Ohio, and Texas are defined. A timeline was developed for Ohio and Texas from initial court challenges through final decisions and appeals.

The funding system for school infrastructure was defined for each state through the unique funding sources. The state capacities for school infrastructure were defined by the respective state governmental agencies and based on a per-pupil amount. The general descriptions of funding programs in each state allowed comparison of common resources. These descriptions formed the basis for comparison between states. (See Appendix B.)

Content Analysis

Documents and records are stable sources of information and accurately describe procedures and situations that have occurred in the past and can be

analyzed and reanalyzed. They are a rich source of information that are relevant and grounded in the contexts they represent (Lincoln & Guba, 1985). The legal contexts in court documents in this study satisfied some accountability issues. Lincoln and Guba (1985) described a record to mean any written or recorded statement prepared by or for an individual or organization for the purpose of attesting to an event or provide an accounting. The examples of records in this study included state government annual reports, court transcripts, school board handbooks, and state finance manuals. They referred to documents as any written or recorded material other than a record that was not prepared specifically in response to a request from an inquirer. Examples of documents in this study would include newspaper editorials, speeches, and lesson plan notes.

Borg and Gall referred to content analysis as a research technique where the raw material for the researcher may be any form of communication, usually written materials (Borg & Gall, 1989). The majority of content-analysis studies are based on data that was already available and written. The court records and school finance systems in all three states were available for review and analysis from the onset of this study.

Content analysis was defined as a systematic procedure for describing the content of communications (Meriam, 1988). Ethnographic content analysis may be used to document and understand the communication of meaning, as well as to verify theoretical relationships (Altheide, 1987). The investigator must look for insights in which "situations, settings, styles, images, meanings, and nuances are key topics" (Altheide, 1987, p. 68).

Three State Comparison

The school facility funding in Iowa was compared to Ohio and Texas prior to those states' Supreme Court decisions and following litigation with school finance reforms in place. Iowa's current school finance system was compared to the two selected states pre and post to finance reform. A three step process was followed to provide structure in making the comparisons.

The first step of comparison identified common funding streams between the three states. (See Appendix B.) Specific areas identified in step one will include foundation level funding from the state, categorical funding for specific expenditures, and school facility funding. The funding examples within the state descriptions provided a common structure for comparability between states.

Step two examined the issues that led to court challenges and eventual Supreme Court rulings of unconstitutionality in Ohio and Texas. The issues developed across these states will be directly compared to Iowa's current school finance program for similarities and differences.

Step three of the state comparisons examined the remedies and reforms that the courts and legislatures implemented in Ohio and Texas to meet the language of their individual constitutions. An identical comparison completed in step two was made with the capacities to fund school facilities for Iowa to the litigation states after finance reform.

Finally, a summary of issues was drawn up and conclusions, implications, and recommendations were made. Issues involved for revisions of state funding

are stated in brief. Conclusions for this study are stated and the researcher's views of further issues are detailed in implications, from which a series of recommendations are derived for consideration by Iowa policy makers.

Chapter 2

GENERAL BACKGROUND

History of Litigation for Fiscal Equity

Litigation challenging the fiscal equity of funding systems at the state and national level began in the late 1960s. The challenges have continued through four decades and most recently in May of 2000. The legal challenges grew from the frustration of citizens and school districts who felt state legislators were unwilling to reform school financing systems to equalize fiscal resources across the state. The wide variance in property values to determine financial resources and the manner in which the taxes were collected and distributed caused the suits to be filed.

The first cases sought to challenge the equal protection provision from the Fourteenth Amendment in the United States Constitution. The first case to reach the Supreme Court was out of Illinois in *McInnis v. Shapiro* seeking equal protection from the Fourteenth Amendment where the plaintiffs sought a reduction in the variation in state allocations of revenues. The Illinois District Court struggled with the concept of equal protection and indicated there were no "discoverable and manageable standards" to determine whether the requirements of the Fourteenth Amendment were satisfied. The United States Supreme Court affirmed the lower court's decision with no discussion and thus delayed the *San Antonio v. Rodriguez* case from Texas for more than three years.

The *San Antonio v. Rodriguez* case was heard in the Western District Court in Texas. The court accepted the plaintiff's position and ruled that the state must exercise "fiscal neutrality" in the state school finance system. An appeal was lodged to the Supreme Court in 1973 where the district court ruling was overturned. The Supreme Court held the "right to an education" is not a fundamental right guaranteed by the United States Constitution. The Supreme Court held that Texas was not obliged to show a compelling interest but needed only a rational relationship to the method of distributing state funds. (Wood, 1986) From this point on, only one fiscal equalization case has entered the federal judicial system. *Scarnato v. Paker* from Louisiana entered federal court where the minimum foundation program was challenged under the equal protection clause of the Fourteenth Amendment. The Supreme Court cited *San Antonio* and dismissed the entire suit.

An operational definition for quality of educational opportunity has been difficult for the courts at every level. The state constitutions were more expansive and definitive, and for this reason the state court decisions have resulted in conflicting decisions. The first state court decision of national exposure was *Serrano v. Priest* out of California in the early 1970s. The ruling declared the funding for elementary and secondary schools was unconstitutional. The justification for unconstitutionality hinged on the contention that the quality of education was a function of a school district's taxable wealth. This case was referred to as *Serrano I* and as a result the California Legislature attempted to pass two bills that significantly changed the school finance to make the ruling

invalid. The Court then ruled the finance system was not a violation of the United States Constitution and the Fourteenth Amendment but did violate the California State Constitution provisions and allowed the Legislature six years to bring the system into compliance. In 1976, the case was appealed to the State Supreme Court as *Serrano II* and was affirmed. The court did recognize significant increases in foundation levels but considered those increases alone did not eliminate any of the constitutional issues from *Serrano I*.

The Arizona Supreme Court ruled that the equal protection clause within the state constitution was violated and the “general and uniform” provision for common schools was also violated in *Shofstall v. Hollins*, 1973. Arizona was the first state to receive legal challenge to the language of common schools. The court’s interpretation of “general and uniform” was that the state should provide a minimum school year, certify staff, establish course requirements, and did not address the fiscal neutrality issue.

Illinois also received a constitutional challenge in 1973 for the provision from Article X, Section I of the Illinois State Constitution:

A fundamental goal of the People of the State is the educational development of all persons to the limits of their capacities. The State shall provide for an efficient system of high quality public educational institutions and services. Education in public schools shall be free. There may be such other free education as the General Assembly provides

by law. The State has the primary responsibility for financing the system of public education.

The plaintiffs felt the stipulation of primary responsibility for financing schools meant the state should provide more than 50% of financing for public schools. The Court disagreed and determined the statement was meant to be an objective and not intended to be a specific order.

The most famous case may have been the *Robinson v. Cahill* decision tried in New Jersey in 1975. The case was first heard in 1972 where facts presented by the plaintiffs showed that 67% of the school revenue came from local tax base. Their claim was the system discriminated against the pupils in poor districts and the taxpayers in those districts by imposing an unequal burden. This lower court ruled that the equal protection guaranteed in the United States Constitution and the New Jersey Constitution was violated and most importantly the state provision of "thorough and efficient system of public education" was also violated. The decision was later heard at the Supreme Court level where the *San Antonio v. Rodriguez* decision was used to refuse the equal protection notion, but it did rule in favor of the plaintiffs by ruling that the New Jersey school finance system did not meet the constitutional mandate for "thorough and efficient." The legislature in New Jersey made various attempts to satisfy "thorough and efficient" but failed in the eyes of the court, and on May 13, 1976, the court prohibited expenditures by local

and state officials after July 1, 1976, for the support of New Jersey public schools unless appropriate funding was realized. On July 1, 1976, all schools in New Jersey closed for two weeks which allowed the legislature the impetus to enact a state income tax to comply with the “thorough and efficient” clause and the injunction from the Supreme Court was rescinded.

The next case that was deemed unconstitutional came shortly after *Cahill* was heard in Connecticut in 1977. The *Horton v. Meskill* case in the Connecticut Supreme Court reported a link between the range of course offerings, the student-teacher ratios, and library materials to the financial wealth of the district. The court expressed concern toward the lack of pupil equity by linking the variance in financial and educational resources to a variance in taxable resources. The court recognized, as in other states, the *San Antonio* decision regarding the “fundamental right” issue but suggested that the Constitution of Connecticut provided a more restrictive protection. The court found the Connecticut Constitution deserved the application of the “strict scrutiny” test (Wood, 1986).

We must conclude that in Connecticut the right to education is so basic and fundamental that any infringement of that right must be scrutinized ...the state system of financing public elementary and secondary education as it presently exists and operates cannot pass the test of “strict scrutiny” as to its constitutionality.

This case was originally decided in 1977 but was litigated again in 1979, and legislation was enacted and amended to achieve financial equity in response to the verdict from 1977. The constitutionality of this new legislation was challenged again in 1984. The amendments enacted after 1979 included phasing-in state funding at a lower level and a slower rate than originally intended and therefore permitted towns to delay full contributions under the minimum expenditure requirement. The trial court and Supreme Court ruled the 1979 plan constitutional but did not agree on the amendments. The Supreme Court remanded the amendments back to the lower court for review and subject to a three-pronged test to determine constitutionality. The test included the following provisions:

1. The plaintiffs must show that the disparities in expenditures have continued to jeopardize the fundamental right to education.
2. If the plaintiffs made this showing, the state accepted the burden to justify the disparities
3. If the state made the justification it must also demonstrate that continued disparities were not so great that it would cause unconstitutionality

In 1979 the West Virginia Supreme Court in *Pauley v. Kelly* reversed a lower court's dismissal of the plaintiff's issue with the state school finance system. Their contention was that the system was not a "thorough and efficient" public education program as mandated by the West Virginia Constitution. The court made its decision based on the poor conditions in one school district and

said "the mandatory requirements of a 'thorough and efficient' system of free schools ...made education a fundamental, constitutional right in West Virginia." The *Pauley* case was then remanded back to the lower court for a retrial, and the school finance system was deemed unconstitutional.

Ohio is one of the states of comparison in this study that has a history of litigation. The system of public school finance was challenged in 1979 on the basis of the "thorough and efficient" and equal protection clauses in the Ohio Constitution. The case *Board of Education v. Walter* was heard through the lower courts where the school finance system was considered in violation of the equal protection provision. The lower courts did not agree on the "thorough and efficient" clause and thus caused an appeal to the State Supreme Court. The court's first decision was to determine whether to apply the test of "strict scrutiny" or use the "rational basis" standard to the challenge to equal protection clause. Their decision against "strict scrutiny" hinged upon the difficult decisions dealing with local and statewide taxation, fiscal planning, and educational policy. The rational basis test was applied with the assumption that every state statute is presumed constitutional and can not be declared invalid unless its unconstitutionality is shown beyond reasonable doubt.

The court reviewed the historical development of local control of the Ohio Public Schools and determined a rational basis for supporting the school finance system was needed to maintain traditional local control. The disparities in per pupil expenditures were justified as a function of the need to retain local decision-making (Wood, 1986). The court also determined that there were no

school districts lacking in funds and none lacked teachers, buildings, or equipment. They also ruled that “wide discretionary powers” are necessary for the legislature, and under the broad provisions of the Ohio Constitution, the legislature did not abuse its power and the school finance system was ruled as “thorough and efficient.” The State of Ohio has since been challenged in *DeRolph v. State of Ohio* where the school finance system was determined unconstitutional in 1997 and was heard again in 2000 as *DeRolph II* after legislative actions were put into place. The Supreme Court of Ohio again ruled the school finance system violated the “thorough and efficient” clause and was deemed unconstitutional in May of 2000. The *DeRolph II* decision based the “thorough and efficient” violation on the heavy reliance on property tax to fund school facilities and educational programming. The *DeRolph* cases were used extensively in this study for comparisons between states.

In 1994, the Arizona Supreme Court held the state's educational financing system violated the Arizona State Constitution. The court ruled the finance system directly caused substantial capital facility disparities among schools in the state. The system relied heavily on local property tax, created arbitrary school boundaries, and made partial attempts at funding equalization. The same heavy reliance on property tax became the centerpiece of discussion in Ohio and Texas. The court struck down a 1996 amendment to the financing system, and in 1997 the legislature established the ABC Fund (Assistance to Build Classrooms Fund). The governor of Arizona filed a court action in Arizona Superior Court seeking a declaration that the 1997 amendments complied with

mandate from the 1994 Supreme Court to meet the conditions of constitutionality. The Superior Court denied the governor's motion and she appealed to the Arizona State Supreme Court. The Supreme Court held that the ABC legislation failed to remedy the system's excessive reliance on property tax at the school district level that varied greatly between districts. The legislature created a small fund which had no relationship to the capital needs of any district and did not equalize funding. It also imposed extremely different tax burdens on residents of different districts and did not set standards for adequate facilities. Districts were also allowed to opt against funding facilities by choosing not to issue bonds. The ABC legislation violated Arizona State Constitution language for "uniform" public school facilities and thus the court declared it unconstitutional and suggested the heavy reliance on property tax be resolved by abandoning property tax in favor of funding by a sales tax, income tax, or statewide property tax.

The State of Texas has significant history with the *San Antonio* case in the early 1970s. In 1984 the Texas Supreme Court held the school finance system in violation of the Texas Constitution which lead to new legislation to restructure the system. In 1991 the court declared the school funding unconstitutional again leading to further amendments that created a two-tiered educational finance system called the Foundation School Program. The first tier of districts were guaranteed sufficient financing for each school district to meet the constitutional provision of a minimum educational program based on average daily attendance. To receive these funds the district had to contribute local funds by taxing

property in the district. The second tier districts were allowed to supplement basic funding levels with additional taxes up to a specific ceiling. Districts that exceeded this level could elect to consolidate or detach territory, purchase daily attendance credits, or contract to educate non-resident students. Texas has been challenged in court repeatedly and as recent as 1997. The court cases and school finance system will be fully explored in Chapters 3 and 4.

There are only five states that have not had some form of litigation regarding school finance. Iowa has not been challenged in the courts, but the trend appears to be continuing to evaluate the constitutionality of school finance systems. The provisions on the basis of equal protection clauses and the definitions of education are the basis for the challenges in over 30 years of litigation.

State Constitutional Descriptions of Education

The provisions for education in state constitutions vary from very general terms to very specific terms. The descriptors include “thorough and efficient,” “uniform,” “suitable,” and “adequate.” These words are considered “terms of art” and are interpreted by the courts to establish the basis that state legislators must follow to establish public school systems in each state. The constitutional provisions must be satisfied and when legislators fail to fulfill these requirements the courts may determine their acts violate the minimal constitutional mandates.

There are certain principles underlying all state constitutions. The following five conditions describe all state constitutions:

1. The legislature is responsible for the enactment of laws to govern the public schools or common schools.
2. The word "system" is common to most constitutions and implies a measure of orderliness and / or uniformity.
3. Public schools are entities controlled by the public and governed by the people.
4. Public schools or common schools must allow full access by all people and be financed through common taxation.
5. Public common schools as a state governmental concept requires taxes be allocated throughout the state to ensure a student's education will not be dependent on the wealth of the local district (Alexander & Alexander, 1992).

Alexander and Alexander categorize state constitutions into three distinct categories. Several state constitutions fall into more than one category due to the detail of description for education. The three different types are as follows:

1. Adjective Category:

The adjective or gloss category uses words such as efficient, uniform, or thorough to describe the qualities of the system. The states of Texas and Ohio involved in this study meet the criteria of this category.

2. System Category:

The constitutions in this category mandate that a system be established and maintained but does not describe any specific characteristics other than public or common schools. Iowa is a

example of the system category for its description of education, “The Board of Education shall provide for the education of all youths of the State, through a system of Common Schools and such school shall be organized and kept in each school at least three months in each year.”

3. New England or Virtue Category:

Alexander and Alexander call this group the virtue group by the use of language that lauds the virtues of education but does not prescribe action by the legislature. Examples would be Massachusetts, Rhode Island, Virginia, and New Jersey. Language from the New Jersey constitution reads: “It shall be the duty of the legislators and magistrates in all future periods of the government, to cherish the interests of literature and the sciences, and all seminaries and public schools.”

The constitutions of the states in this study define the provisions for education in slightly different terms with Ohio and Texas using adjectives of adequacy. Iowa refers only to common schools in the constitution and makes reference to schools being treated “alike” in the Code of Iowa.

The Constitution of Texas uses wording that supports and maintains an efficient system in its description of public schools.

Article 7, Section 1: Support and Maintenance of System of Public Free Schools.

A general diffusion of knowledge being essential to the preservation of the liberties and rights of the people, it shall be the duty of the Legislature of the State to establish and make suitable provision for the support and maintenance of an efficient system of public free schools.

The Constitution of Ohio uses wording that secures a thorough and efficient system of common schools.

Article VI, Section 2:

The general assembly shall make such provisions, by taxation, or otherwise, as, with the income arising from the school trust fund, will secure a thorough and efficient system of common schools throughout the state; but no religious or other sect, or sects, shall ever have any exclusive right to, or control of, any part of the school funds of this state.

The Constitution of Iowa has original language that describes a system of common schools.

Article IX, Section 12: Common Schools

The Board of Education shall provide for the education of all youths of the State, through a system of Common Schools and such school shall be organized and kept in each school at least three months in each year. Any district failing, for two consecutive years, to organize and keep up a school as aforesaid may be deprived of their portion of the school fund.

The above section has been omitted from the codified Constitution with language indicating that certain provisions superseded or obsolete have been omitted from the codified Constitution. A section in the Code of Iowa does refer to the laws that apply to common schools must apply alike.

Iowa Code Chapter 274: School Districts in General under Section 2

(274.2) General Applicability:

The provisions of law relative to common schools shall apply alike to all districts, except when otherwise clearly stated, and the powers given to one form of corporation, or to a board in one kind of corporation, shall be exercised by the other in the same manner, as nearly as practicable. But school boards shall not incur original indebtedness by the issuance of bonds until authorized by the voters of the school corporation.

CHAPTER 3

STATE FUNDING PRIOR TO LITIGATION

Texas Timeline Through Court Intervention

1965, Texas

Governor John Connally appointed the Governor's Committee on Public School Education and charged the group with developing a long-range plan to bring Texas forward as a national leader in education.

1968, Texas

The Governor's Committee recommended sweeping changes in education, specifically, massive injections of state funds through a broader Minimum Foundation Program along with wide-spread consolidation of school districts. The majority of the committee's recommendations were ignored by the Texas Legislature in 1969 and 1971.

A constitutional amendment passed to phase out the state property tax for public education. A declining tax rate was set for 1968 and 1974.

1971, Texas

The federal district court in San Antonio ruled the Texas system of school finance unconstitutional in *Rodriguez v. San Antonio ISD*. The ruling determined the system violated the equal protection clause of the Fourteenth Amendment because of its excessive reliance upon disparate local property tax wealth and differing expenditures on pupils in low-wealth districts. The court granted the

state two years to devise a new system based on no-wealth-discrimination principles.

1972, Texas

The *Rodriguez* case was appealed and heard in the U.S. Supreme Court.

A comprehensive plan for a no-wealth-discrimination school finance reform was developed by the Joint Interim Senate Committee to Study School Finance. The committee preferred an approach based on a district power equalization model.

1973, Texas

The U.S. Supreme Court reversed the *Rodriguez* decision on the basis that education was not a fundamental right protected by the Fourteenth Amendment. The Texas Minimum Foundation Program was determined constitutional, but Texas legislators were given a strong message to develop a more equitable system. Several committees were appointed to prepare school finance recommendations for the sixty-fourth Legislature.

1975, Texas

In the final hours of the session, the Texas Legislature hastily developed a new structure containing significant changes to the school finance system. The changes included increased funding to the renamed Foundation School Program, equalization aid to specific property-poor districts, and the abandonment of the county economic index method of determining local fund

assignment by shifting to actual market value of property (determined by the state) as a rationale.

1977, Texas

The legislature convened in a special session in July and passed Senate Bill 1 that altered the financing structure by increasing the Foundation School Program aid; lowered local fund assignment in two different configurations; equalized aid in the two different configurations, including the costs of special and vocational education costs in the Foundation School Program versus categorical aid; and adjusted special aid for small and sparse-areas districts.

1978, Texas

Texas voters passed a Tax Relief Amendment to grant \$5,000 of property tax exemption for all homesteads, granted an additional \$10,000 exemption for elderly and disabled, and froze school taxes for the elderly over 65.

1979, Texas

The Texas Legislature passed Senate Bill 350 that again expanded the Foundation School Program aid, adjusted local fund assignment rates, revamped transportation aid through the use of linear density formulas, established personnel unit floors for necessary small districts, added a fast-growth adjustment, added a minimum aid adjustment, provided for support services for small school districts for accreditation purposes, and again adjusted state equalization aid to a single formula.

1981, Texas

The Texas Legislature added approximately \$1.5 billion to the Foundation School Program by granting the largest increases in teacher pay, maintenance and operation allotments, and state equalization aid. The local fund assignment was lowered; transportation aid was increased; the minimum aid feature of the Foundation School Program was retained, and bilingual education support was expanded.

The governor vetoed the fast-growth adjustment portion of state aid. A special session resulted where the Legislature passed House Bill 30 that attempted to clarify previous property tax legislation. Mandatory reappraisal of property at least every four years was one of several property tax adjustments.

In November a constitutional amendment was passed allowing local tax jurisdictions to grant additional homestead exemptions (above those granted by the state in 1978) on a local option basis. An exemption was allowed to be as high as 40% of value and then declining to 20% of value over time.

1982, Texas

A constitutional amendment passed prohibiting all state property taxes still in existence from legislation in 1968.

1983, Texas

Texas was confronted with fiscal issues due to the leveling of state revenue. Legislators were faced with raising taxes or cutting state spending

increases by providing only sufficient funds for public education to meet the current law. The local fund assignment was lowered \$1.10 per \$1,000 of equalized taxable value, and the state's contribution rate for the Teacher Retirement System was lowered from 8.5% to 7%.

The governor appointed a Select Committee on Public Education and appointed H. Ross Perot as the chairman. The committee was asked to study reform for the financing of education and present findings to a special session of the Legislature.

1984, Texas

The Select Committee on Public Education reported its findings and recommended several options including an appointed State Board of Education, a more equalized school finance structure, increased teacher salaries, a career ladder for teachers partially based on performance, class size maximums, and restrictions on extracurricular activities.

The *Edgewood ISD v. Bynum* suit was filed claiming the Texas school finance system was unconstitutional under Article 1, Section 3 (equal protection) and Article VII, Section 1 (efficient system) provisions under the Texas Constitution.

The Texas Legislature met in special session and enacted House Bill 72; this comprehensive bill addressed nearly all aspects of public education. The bill moved distribution aid from a weighted personnel unit to a weighted pupil of Average Daily Attendance (ADA) approach. The overall aid was increased 19%

with an emphasis on equalization features that included a statewide local share of the Foundation School Program of 30%, an increased equalization aid for property-poor districts; an increased state minimum for teacher salaries with a new salary schedule; all minimum salary designations for counselors, supervisors, administrators and support staff; and instituting a career ladder for classroom teachers. New programs were also funded beginning with pre-kindergarten that started in 1985-86, class size maximums of 22 in grades K-2 for 1985-86, grades three and four in 1988-89, and movement of some state contributions to the Teacher Retirement System to the local district.

The Legislature increased state aid outlined by House Bill 72 and raised state taxes to generate \$4.9 billion in additional revenue over a three-year period. The state general sales and use tax was increased from 4% to 4.125% with many exemptions removed from the tax to reduce regressive tax discussions associated with sales tax increases.

1985, Texas

The State Legislature made few changes to the reform enacted in the previous year other than talented and gifted funding was provided a special allotment under the Foundation School Program rather than categorical funding. (The State of Iowa also made this same change in 1999 and moved away from allowable growth with direct property tax to the combination of state aid and property tax on a more equalized basis.)

The *Edgewood ISD v. Bynum* suit was filed again as *Edgewood ISD v. Kirby* and challenged the school finance system in place due to House Bill 72.

1986, Texas

The Texas Legislature was forced to meet in two special sessions to address state budget problems. The Legislature combined a temporary sales tax increase in combination with budget reductions to keep elementary and secondary education funding intact.

1987, Texas

The Legislature made the temporary sales and gasoline tax increases permanent and expanded the sales tax to 6%. One of the reductions was a non-specific 0.65% decrease in the Foundation School Program for districts with rapid decreases in local taxable values. This portion of the appropriations bill was vetoed by the governor.

State District Court Judge Harley Clark, in *Edgewood ISD v. Kirby*, overturned the Texas school finance system as unconstitutional under the Texas State Constitution equal protection clause and efficient system language. The opinion was appealed by the State of Texas.

1988, Texas

A court of appeals panel of three judges reversed the trial court judgment in *Edgewood v. Kirby* by a 2-1 decision. The court ruled the state met the

“rational basis” test and met constitutional muster but stated in the opinion the need for equity improvements. The plaintiffs appealed to the Texas Supreme Court.

1989, Texas

The Texas Legislature increased the biennial school funding by \$450 million in addition to funding needed for student growth. Senate Bill 1019 increased the state basic allotment from \$1,350 to \$1,477 in 1989-90 and to \$1,500 in 1990-91, established a Cost of Education Index in 1991-92, increased the career ladder allotment, and implemented a new second-tier equalization aid formula based on tax effort and a guaranteed yield per weighted pupil. The guaranteed yield became the key for further constitutionality challenges in future years.

On October 2, 1989, the Texas Supreme Court declared the Texas system of public finance unconstitutional because it violated the “efficient system” clause of Article VII, Section 1 of the Texas Constitution. The court drew a link between efficient and equal. The Legislature was given until May 1, 1990, to construct a new system that provided “substantial equal access” to revenue for districts at a similar tax effort. All state aid was to be enjoined from distribution after May 1 if the new system was not devised to be effective on September 1, 1990.

1990, Texas

The Legislature met in a series of special sessions beginning in February. The first session expired with no progress. The second session ended on May 1 with a revenue bill to increase the state sales tax a half-cent which was promptly vetoed by the governor and a school finance bill that was held pending revenue certification.

On May 1, 1990, State District Court Judge Scott McCown extended the deadline to June 1 and appointed three school finance experts to develop a court-ordered plan if the Legislature failed to act. A third session ended without a school finance bill as Judge McCown extended the deadline again to June 21. Judge McCown made the experts' preliminary plan public and stated that if the Legislature acted by June 20 the experts' final plan would be held in abeyance.

On June 7 the governor signed Senate Bill 1 into law. Senate Bill 1 provided an increase in revenue of \$528 million funded by a one-quarter cent increase in state sales tax, increased cigarette and alcohol taxes, but also reduced budgeted state expenditures in other areas for public education. The bill also contained new finance provisions, accountability incentives, and an optional year-round school provision. The finance provisions included a five-year phase-in of reforms, the establishment of a standard that 95% of the pupils would be in a wealth-neutral finance system by 1995, an addition of facilities and equipment to the foundation program definition, the reformulating of all funding elements to achieve the equity standard, increasing the basic allotment to \$1,910 in 1990-91 and \$2,128 in 1991-92 and after increasing the local share of

the basic foundation program by 41% to \$5.41 per \$1,000 of taxable valuation, increasing the guaranteed yield in second tier program, and raising the tax rate matched by the state in the variable ratio guaranteed yield program.

A retrial of *Edgewood ISD v. Kirby* was heard by Judge Scott McCown where the court ruled the post-Senate Bill 1 system was still unconstitutional. The court did acknowledge the equity improvements but declared standards were not met to achieve equal yield in revenue at similar tax rates or to make provisions for equal access to funds for capital outlay. Judge McCown issued an injunction against the system in 1991 causing the plaintiffs to appeal to the Texas Supreme Court.

1991, Texas

The Texas Supreme Court in *Edgewood II* found the trial court erred in not issuing an injunction against the distribution of state aid but delayed the effective date to April 1, 1991. The Court determined (9-0) that the new system remained unconstitutional and still relied too heavily on local property taxes; allowed the existence of low taxed, high spending districts, and did not restructure the system. On a motion for rehearing (*Edgewood IIa*), the Texas Supreme Court held that "recapture" was still prohibited and unequalized enrichment was not strictly prohibited.

In April the Texas Legislature passed Senate Bill 355 along with a companion bill House Bill 2885. The new laws created 188 county education districts (CEDs) that covered 254 counties and all school districts. Some of the

local taxing authority was assigned to the CEDs for the purpose of raising and redistributing the "local share" of the foundation program. School facility funding was emphasized through the second-tier guaranteed yield program of assistance. The basic allotment was again increased up to \$2,200 in 1991-92, rising to \$2,800 in 1994-95, while increasing the local share from \$5.40 per \$1,000 of taxable valuation to \$7.20 per \$1,000 in 1991-92 and again to \$10.00 per \$1,000 in 1994-95. The yield was also increased in the second-tier guaranteed yield program.

In June of 1991 the district court began arguments to the constitutionality of Senate Bill 351. The District Court upheld the CED tax as constitutional in August with the cross-claimants immediate appeal.

1992, Texas

In January the Texas Supreme Court ruled (7-2 opinion) that the CED tax was unconstitutional because a local district was levied a tax without local voter approval and therefore constituted a state property tax. The Court delayed the effects of the ruling until June 1, 1993, thus allowing the unconstitutional tax to be collected in 1991-92 and 1992-93.

A federal court suit was filed that claimed the Texas Supreme Court's ruling denied property taxpayers "due process of law" as guaranteed by the U.S. Constitution. The federal court denied an injunction on the basis for the necessity to fund schools and allow the Texas Legislature to act. The plaintiffs appealed the denial of the injunction. The Fifth Circuit Court of Appeals upheld

the denial of the injunction and determined that federal courts did not have jurisdiction over the CED tax case until all state-level of appeals were exhausted.

A special session called in November after the election was called to consider *Edgewood III*. The “Fair Share Plan,” a constitutional amendment, permitted statewide recapture, and the enabling legislation was considered. The special session ended in December without passage.

1993, Texas

Two constitutional amendments with three propositions were presented to the voters for the May 1 ballot. The three propositions would: (1) permit the recapture of local tax dollars up to 2.75% of state aid and school property taxes, in addition to the CED tax with a rate up to \$10.00 per \$1,000 of taxable valuation; (2) permit school districts to not comply with state mandates unless they were fully funded; (3) authorize up to \$750 million of general obligation bonds for school facilities. All three propositions were rejected by the voters on May 1.

The Legislature enacted Senate Bill 7 with a major feature of a recapture provision but based on five wealth-reduction options for districts with property wealth in excess of \$280,000 per weighted student (see the five options in the Texas state finance description). The Legislature also passed Senate Joint Resolution 49 that restricted legislative authority to impose a personal income tax without voter approval. If a personal tax was approved by the voters, at least two-thirds of the revenue was designated for school property tax relief with the

remaining to be used for additional property tax relief or appropriations for education. This resolution was presented to the voters as a constitutional amendment and was overwhelmingly approved.

In December District Court Judge Scott McCown upheld the constitutionality of Senate Bill 7 but issued an injunction against issuance of school district bonds effective September 1, 1995, unless the Legislature addressed school facility funding. This final ruling was issued in January of 1994 and appealed directly to the Texas Supreme Court.

1994, Texas

Oral arguments were heard by the Supreme Court on the appeal of Judge McCown's ruling on May 25, 1994.

1995, Texas

The Texas Supreme Court upheld the Senate Bill 7 finance system in a 5-4 decision and noted the challenge on facilities failed only due to "evidentiary void." The Court upheld all of the major portions of Senate Bill 7 including the wealth-reduction options and recapture provisions.

The Legislature approved Senate Bill 1 that "fine tuned" school finance law that increased the basic allotment to \$2,387 and a guaranteed yield of \$21 in the General Appropriations Act. The bill also created the establishment of a school facilities grant program funded at \$170 million for the next two years.

Ohio Timeline Through Litigation

1991, Ohio

The Ohio Coalition for Equity and Adequacy of School Funding filed a lawsuit in December with the Perry County Court of Common Pleas. It charged that Ohio's school finance system was unconstitutional because it created funding inequities among Ohio's 611 school districts. This challenge of the "thorough and efficient" language and the Equal Protection Clauses was the first challenge of Ohio's funding system since 1979 when the Supreme Court funding challenge filed by the Cincinnati School District was rejected.

1993, Ohio

The hearings began in the *DeRolph* case during October where the state contended that the current school finance system was a dual system and relied on state and local funds to maintain control of educational program decisions. During the 30-day trial the state argued that it was the local option to seek additional levies, together with differences in property value, that created the disparities among the school districts in expenditures per pupil.

1994, Ohio

Judge Linton Lewis, in Perry County Court, declared in a 478-page decision the financing system in Ohio was unconstitutional because it created inequities between rich and poor districts. He found the public school financing system was neither efficient nor thorough and could not be allowed to continue in its present form.

In August the Governor of Ohio and legislative leaders, over the objections of the State Board of Education, forced an appeal of Judge Lewis' decision to the Fifth District Court of Appeals. The governor and legislative leaders maintained the legislature, not the courts, had the authority to determine school aid and systems of financing.

1995, Ohio

The appellate court reversed Judge Lewis' ruling in August of 1995. In the month of October, the *DeRolph* plaintiffs filed and appealed with the Ohio Supreme Court seeking to reinstate Judge Lewis' decision.

1996, Ohio

The Ohio Supreme Court accepted jurisdiction in the *DeRolph* case in January. Forty state and federal government leaders from both parties submitted a brief in April to the Supreme Court seeking to reinstate Judge Lewis' decision. They contended substantial school finance reform was essential to provide all children adequate educational opportunities required by the Ohio Constitution.

1997, Ohio

In March the Supreme Court of Ohio reversed the appeals court decision by a 4-3 margin and held that Ohio's current school funding formula violated the Ohio Constitution "thorough and efficient" common schools clause and ordered

the Ohio General Assembly to complete a “systemic” overhaul of the school finance program within 12 months.

The Ohio General Assembly submitted the first remedy in SB102 that created the Ohio School Facilities Commission (OSFC) and exempted public school buildings from the prevailing wage. Fierce debate and opposition came from the construction labor unions. The purpose of the OSFC was to push state funding to schools faster in matching funds for building improvements and to assess the condition of Ohio’s public education facilities.

During June the Governor of Ohio approved the biennial budget bill, HB 215. The bill responded to the court’s decision and addressed several finance issues including recomputation and increasing the basic student aid formula.

The General Assembly completed the Public School Academic Accountability Act (SB 55) in November that addressed student performance standards and increased student contact time in core academic areas. The Assembly also approved a Fiscal Accountability Act (HB 412) that required schools to reserve funds for maintenance, textbooks, and fiscal emergencies. It also required school performance audits to be performed by the state auditor. These two bills were heavily criticized as being unfunded state mandates on Ohio’s school districts.

1998, Ohio

A revised school funding formula was proposed in (HB 650) to commit hundreds of millions of new state dollars specified to achieve an adequate level

of funding over a period of five years beginning in the fiscal year 1999. The per pupil expenditure was set at \$4,063 with increases of 2.8% over the next five fiscal years. The dollar figure was derived by looking at costs of funding an adequate education versus funding schools from the "residual dollars" remaining in the state budget. State lawmakers proposed HB 697 to increase the state sales tax, generating \$1 billion a year in revenue. This provided enough revenue for property tax relief and fund school operations, facilities, and educational technology. A companion issue (HJR 22) asked voters to approve a constitutional amendment to allow issuance of bonds to help fund school construction projects. This appeared as Issue 1 on the ballot, and the sales tax increase appeared as Issue 2 on the ballot to the voters of Ohio.

In May the voters of Ohio rejected Issue 2, the sales tax increase, by a margin of 4 to 1. Issue 1, the bond authority proposal, was also rejected by nearly 60% of the voters. Additional school funds were then included in (HB 770) to represent the state's final remedy. The General Assembly appropriated \$300 million per year for classroom facilities until 2001 when a committee was appointed to reexamine the cost of an adequate education.

Judge Lewis issued an order in August that placed the burden of proof on the state to show constitutional muster by invoking the equal protection clauses in the Ohio and U.S. Constitution. State officials immediately objected and pursued legal remedies. The two-week trial began with Judge Lewis asking the Supreme Court for guidance in the equal protection issue. Judge Lewis revised

his order and backed away from equal protection standard and called witnesses to testify on behalf of the General Assembly and the plaintiffs.

Judge Lewis decided the issue of attorney fees awarded to the *DeRolph* plaintiffs upheld in the Supreme Court to the Bricker & Eckler Law Firm. The amount awarded was \$888,721, much less than the \$3.5 million requested. Judge Lewis was critical of the firms request saying "An award of attorney fees is to compensate clients, not their attorneys."

1999, Ohio

In February Judge Lewis rejected the legislature's remedies to the Supreme Court's ruling in *DeRolph*. The 239-page ruling found "while minor changes have been made, with little exception, these changes are largely changes of form and not substance." Judge Lewis determined the state's effort was "woefully inadequate" and ordered state education officials and the Board of Education to develop a new finance system and submit it to the General Assembly by January of 2000.

The Ohio Attorney General filed notice of appeal to the Ohio Supreme Court in March asking for a reversal of Judge Lewis' decision and a stay of his decision until the high court hears the state's appeal. Additional documents were presented the following month to delay the order requiring the Superintendent of Public Instruction and the State Board of Education to develop a new school finance system. The court subsequently issued the stay.

The Governor of Ohio signed HB 282 as the first bill written solely for education in June. The bill appropriated a record \$13 billion to fund schools in Ohio. The bill reduced property tax on business inventories but did not address residential property taxation, an obvious concern in the Supreme Court's 1997 *DeRolph* decision. The General Assembly also diverted \$400 million appropriated for personal income tax reductions to school facility construction.

The Governor and legislative leaders announced a plan to provide \$10.2 billion in state funds to build, renovate, and equip Ohio schools over the next 12 years. This proposal was contingent upon tobacco settlements, capital budget bills, and the sale of school facility bonds. The leaders believed this plan would address the school facilities issue in the *DeRolph* decision. The sale of bonds was also contingent upon another vote of the public (Issue 1).

In November the Ohio voters approved the Issue 1 as an amendment to the Ohio Constitution allowing general obligation debt through the sale of bonds for school construction. The issue was nearly identical to the proposed amendment rejected in May of 1998. Oral argument began in the *DeRolph* case at the Supreme Court.

2000, Ohio

State lawmakers approved SB 192 that earmarked a good portion of the \$10 billion of tobacco settlement money to school facilities. The state was allowed to submit the plan to the Supreme Court as further evidence to comply with school facility funding.

The Supreme Court of Ohio determined in May, once again, that the legislature's restructured system failed to meet the constitutional "thorough and efficient" standard for common schools. The court determined in a 4-3 ruling that the system relied too heavily on property taxes that vary greatly from district to district depending on property wealth. The court found the new facilities plan to be on the right track but had some considerable work to do to ensure "safe and healthy" learning environments for all students. The court ordered the legislature to enact further remedies and report progress by June 15, 2001.

The Joint Committee on School Funding and Accountability held a series of informational hearings in June that included the Coalition for Equity and Adequacy of Funding.

In December the General Assembly enacted a bill (SB 345) written to ease "unfunded mandates" on school districts. The Committee to Reexamine the Cost of an Adequate Education recommended an additional \$600 to \$800 million be appropriated annually into the primary and secondary education budget. The panel also proposed a tiered approach to school funding that had the state cover more costs for special education and transportation and boost the per-pupil base cost spending. The tiered approach mirrored the funding program in Texas without a guarantee or additional facility funding.

2001, Ohio

A senate bill (SB 1) proposed a two-tiered funding approach providing a per-pupil amount of \$4,566 for fiscal year 2002 and money to replace current funding for property-poor school districts.

Supreme Court Judge Resnick emphasized the date of June 15, 2001, as the deadline for the legislature to file a complete account of its enactment with the Court that reflected compliance. The account was to include a set of statewide academic standards, requirements that all school buildings be brought up to fire and building codes, elimination of overreliance on local property taxes, funding all state mandates, and an accurate determination of the per-pupil cost of an adequate education to be funded immediately.

The Ohio Coalition for Equity and Adequacy of School Funding released a report in February indicating the majority of Ohioans (52.3%) would support “an increase in state taxes earmarked specifically” for schools, and only one-third of Ohioans thought school funding was adequate with only 25% who believed it was fair.

Two house bills were introduced; HB 1 would implement recommendations of the Governor’s Commission for Student Success, and HB 2 was written to set general policy and purpose for school funding measures.

In November the Supreme Court ordered mediation as a way to settle and end the ten-year court battle on school finance. Representatives from both political parties and attorneys representing the school district coalition were given until mid-February of 2002 to come to a compromise agreement.

Ohio's Reference to Texas

The Texas Supreme Court's remarks when it addressed the challenge to its authority to review its state's school funding system were as follows:

For the people, the function of the judiciary deciding constitutional questions is not one which it is at liberty to decline. The legislature may avoid a measure because it approaches constitutionality. The Court can not pass it by because it is doubtful, with whatever doubt, with whatever difficulties a case may be attended, we must decide it when it arises in judgment.

The Ohio Supreme Court faced the same challenge as Texas by the legislature who believed the General Assembly had the responsibility to enact legislation and presume it valid. The Judiciary was created as a system of checks and balances. The Court was within their constitutional authority to review the school finance issue and had the right to declare it unconstitutional.

Texas invalidated its state funding structure in which per pupil expenditures varied from \$2,112 to \$19,333 in the poorest to the wealthiest districts. "Texas property-poor districts are trapped in a cycle of poverty from which there is no opportunity to free themselves." (*Edgewood, 1985*) Their inadequate tax base meant a significantly higher tax rate was needed in order to meet minimum requirements. The high tax rate property-poor districts and inferior schools were unable to attract new industry or further economic

development to improve their tax base (*Edgewood, 1985*). This same argument was used in Iowa in preparation for the lawsuit against the state where property rich districts were buying down existing debt with sales tax revenue.

Texas was able to present evidence of how fiscal inequities produced inadequate educational opportunities and thus violated the efficiency clause in their constitution.

The Ohio Supreme Court defined a “thorough and efficient” system of common schools throughout the State of Ohio:

The declaration is made by the people of the state. It calls for the upbuilding of a system of schools throughout the state, and the attainment of efficiency and thoroughness in that system is thus expressly made a purpose, not local, not municipal, but statewide.

Iowa Issues for Litigation

Even though the State of Iowa is one of five states never to be challenged in the courts on school funding; two changes occurred in recent years that may cause a court to consider such a challenge. The court cases in other states with similar funding patterns is one change, and the way that Iowa funds school facilities is the other. In terms of the latter, the capacity to fund school facility construction has been generated through property tax collections from a voted bond issue or voted levy for Physical Plant and Equipment Levy

(PPEL). In 1998 the Legislature in Iowa enacted a bill to allow counties to impose a one-cent Local Option Sales Tax for the specific use in school infrastructure. The sales tax dollars were generated on retail sales in the county and distributed on a per-pupil basis. Counties were required to pass a referendum by a simple majority to enact the tax. The money was distributed on a per-pupil basis to individual districts on a head count of students residing within the county. The combination of property tax and sales tax revenue determines the capacity for each district to support school facility construction. (See Appendix A.)

In general terms the State of Iowa had a foundation program that combined state and local resources for school funding. The lower property wealth districts received more state revenues to make up for the disproportionate level of tax capacity. Until the 2000 legislative session, Iowa has not provided funding for school facilities directly to school districts, though they have offered state and federal grant programs in the past several years.

The traditional method of board-initiated bond referendums required a "super majority" or 60% voter approval for passage. Each school district was limited to a specified amount of bonding capacity determined by a maximum tax rate of \$4.05 per \$1,000 of assessed valuation for retirement of the debt. The larger the assessed valuation of the district the larger the bonding capacity and ability to retire the debt with pure property tax. Individual counties in Iowa had the ability to pass and impose a local option sales tax earmarked specifically for school infrastructure. The amount was collected county-wide by the state and

re-distributed on a per-pupil basis to districts with students residing within that county. The problem with this tax scheme was only the counties that contain retail centers and the state's population centers had passed the local option sales tax. The 2000 Legislature was presented a possible solution for equalizing funding by spreading the wealth of the more populous retail centers throughout the state but this was defeated. As a short term fix the legislature passed the Vision Iowa Bill that would deliver \$50 million over a three year period. A grant process was put into place for districts not receiving local option sales tax above the state average if all counties were to collect the tax.

The highest sales tax producing county in Iowa was expected to produce over \$700 million in revenue for facility construction and property tax relief for 16 school districts over 10 years. The school districts not receiving local option sales tax or those receiving sales tax at a level below the state-wide average if a state sales tax existed could apply to share the \$50 million grant over three years. The question of equity was a point of discussion throughout the legislative session and in rural districts. Rules written into the grant process defined school district capacity for infrastructure and gave those with the least capacity preference. (See Appendix A.)

The State Legislature in Iowa extended the sunset of the funding formula and foundation program for school funding in the 2000 and 2001 legislative sessions. The retail centers in Iowa in Polk County (Des Moines), Scott County (Davenport), Blackhawk County (Waterloo / Cedar Falls), Pottawattamie County

(Council Bluffs), and Woodbury County (Sioux City) have passed a one-cent local option sales tax for school infrastructure.

The counties adjacent to the retail centers generate far less in retail sales and actually provide up to 40% of the revenue in the counties that hold the retail centers. Warren County and Dallas County that ring Polk County would receive approximately \$170 per student if the one-cent tax were in place in their counties. Polk County generated approximately \$980 per student in 2000. Polk County ranked first out of 99 counties while Warren and Dallas ranked ninetieth and ninety-first.. The difference across the state in sales tax revenue per student ranged from \$90 to \$980 per student. The rural school districts and urban school districts were being divided by this issue along with the legislative leaders that represent them. The Vision Iowa Bill allocated \$10 million the first year and \$20 million in the next two successive years. School districts with the least capacity to generate capital for school facilities were given highest priority to apply for the state grants. Each district was required to provide matching funds determined by a sliding scale based on each district's capacity to generate facility funds. An individual district could apply for up to \$1,000,000 to enhance a qualified building project. This was the first venture for the State of Iowa into school facility funding. It became an emotional issue for many and was the topic of many news articles regarding the perceived inequity. The issues ultimately returned to a comparison of dollars where an individual county could generate \$700 million over 10 years while the state provided only \$50 million over three years for the districts below the state average per pupil.

Texas Equalization Efforts

Texas public education went through a series of court battles in the 1980's and the 1990's dealing with the issue of equal access to resources for public education. The crux of the argument was the heavy reliance on local property tax to fund public education coupled with the great disparity in property values across the state. The differences in property wealth made it extremely difficult for each school to have equal access to revenue.

The Texas Supreme Court ruled in January of 1995 on a final opinion in the *Edgewood vs. Meno* case that significant inequities remained in the school finance plan in Texas. The inequities targeted were funding issues involving school grounds, equipment, and facilities. The Foundation School Program attempted to equalize funding for public schools in Texas by providing state aid to supplement local property taxes and by limiting the total amount of property wealth per pupil that can be used to fund education in property-rich districts. Each tier was developed to maintain equity across the state. Tier 1 provided state funding in an inverse relation to the wealth of the district. The combination of state and local funds through a foundation program was the legislative response to the court rulings. Tier 2 with provisions for wealth equalization provided additional funding for school districts with low property values to equalize the amount per Weighted Average Daily Attendance (WADA). The goal was to provide substantial equal access to resources at equal tax rates. Tier 3 attempted to provide resources for debt service and capital outlay through a

guarantee similar to the system of equalization in Tier 2 (Texas School Board Association, 1999).

As a result of the *Edgewood* school finance litigation, the State of Texas developed a set of measures to test the level of equity in the school finance system. Three measures were presented to the court and were accepted as tests of the system. The Legislature studied these measures as a part of its process of developing the state budget with an eye to keep equity levels at or near target levels. The target levels were 85% for students in the equalized system and 98% for equalized revenue in the system. The projected percentage of students in the equalized system was 90% for the 2000-2001 school year. The projected equalized revenue in the system for the 2000-2001 year was 99%. The Court has held the Foundation System Program constitutional by maintaining an equal amount of revenue at substantially equal tax rates.

Potential Issues in Texas

The number of weighted students increased dramatically over several years. In the 1998-1999 school year the unweighted enrollment or head count was approximately 3.7 million students while the weighted enrollment for the same year was 4.9 million. With many of the calculations for funding and wealth figured on WADA (Weighted Average Daily Attendance), the one third more weighted students in the funding system had a huge impact on school finance in Texas.

Charter schools increased from 65 charters in 1998 to 153 charter schools in 1999 with 15 more scheduled to open in 2000. Charter schools do not have local property wealth to tax but instead received state funding roughly equal to funding received by the traditional public schools. The increase of funds to non-taxing entities was seen as a drain of revenue from the public schools funding source.

Ohio School Financing Prior to Court Intervention

Foundation Amount

The formal foundation amount determined by the General Assembly on a per pupil basis had no correlation to actual costs. The amount was set every two years and was determined to be inadequate to meet the needs of the students of Ohio. This amount was determined by what the legislature “felt” it could afford rather than an amount necessary to meet actual costs of educating a student in Ohio. The School Foundation contained a guarantee that allowed a district to receive the greater of the program amount or the guarantee amount. This concept favored the property-rich district that needed minimal tax effort to generate increased revenue.

The School Foundation Program also contained no aid expressly for capital improvements; aid was provided in the Classroom Facilities Act, and in Court it was founded to be insufficiently funded to meet the needs of districts poor in real property value.

The amount of the charge-off in the foundation formula did not accurately measure the ability of the school districts to pay their local share of the basic program.

Tax Reduction Factors

Tax reduction factors were used to limit growth of real property tax revenues that would occur due to inflation of property values. The law required application of tax reduction factors when values escalated due to reappraisal. The net result meant a district received no additional revenue after each property assessment and prohibited the district from keeping pace with inflation rates on goods and services. The districts in Ohio were forced to increase taxes to make up the difference of lost revenue. The property-rich districts were again able to recover the needed revenue through minimal tax increases. Many districts were forced to continually go to the voters for dramatic increases in local tax levies to raise the necessary funds and met with increasing failure causing program cuts and reductions. This system of funding placed the burden of raising revenue squarely on the local school districts and local tax payers.

In Cuyahoga County the yield per pupil per operating mill ranged from \$581.57 to \$21.06 where it took 27 mills (\$27.00 per \$1,000 of taxable valuation) in East Cleveland to equal 1 mill (\$1.00 per \$1,000 of taxable valuation) in Cuyahoga Heights. In Trumbull County property value per pupil ranged from \$194,649 to \$42,297 (a ratio of 5:1) and in Clermont County the values ranged from \$254,365 to \$33,283 and a ratio of 8:1. Iowa has a comparable ratio of

property value with a ratio of 6:1 statewide. As a result of the tax reduction factors, school districts lost over \$1.472 billion in real property tax revenue in fiscal year 1992. In that same year tax reduction factors reduced property taxes statewide 26.12%.

Cost of Doing Business Factor

The Cost of Doing Business Factor (CDB) was created to be an equalization factor in the foundation plan. The CDB applied equally to all school districts within a county regardless of the true cost of operation in each individual district. The factor automatically assumed costs were lower in rural districts as opposed to urban districts. The CDB factors did not fully reflect differences in costs associated with school districts operations and did not adequately account for differences in costs within a county. The county-wide factor was one of several issues specifically identified the Court in its ruling (*DeRolph v. State*, 1997).

Special Students

Aid to Dependent Children (ADC) funding stopped at the 20% concentration level. When needs increased, typically in poverty areas with low property value, the districts were forced to levy to provide for the students beyond the 20% concentration level. Handicapped students were not fully funded where costs extended beyond the foundation level and weighting factors. The amounts received for categorical programs, vocational programs, and special education were less than actual costs. The deficits were funded through

additional levies where the property-poor districts had to exert significantly more tax effort than the property-rich districts. This was also true for property-poor districts in Iowa when they were forced to fund special education deficits through allowable growth and local property tax.

Ohio Phantom Revenue

Phantom revenue occurred when a school district had inflationary growth in real property valuation and received no additional local tax revenue property due to the increased valuation. The district then received less in basic state aid due to the increased valuations increasing the district's charge-off. A district can experience an increase in valuation and receive less from the foundation formula and no additional tax revenue from the increase in tax base.

Forced Borrowing

If a local district could not meet budget demands, they were forced to borrow funds. Under the Spending Reserve Program a district must borrow against the next year's revenue with the approval of the State Superintendent of Public Instruction. A district could borrow more but was required to go through commercial lenders. If the district was in a deficit, it was required to apply for a loan and if denied was forced to reduce the entire budget by the loan amount. The repayment plan was to be made in two years, up to 10 years for larger amounts, but the money was repaid by diverting funds that could otherwise be used for student programming from the school foundation program.

Factors Causing Constitutional Issues

The factors which made the Ohio funding system unworkable and needed elimination were as follows:

1. The operation of the School Foundation Program.
2. The emphasis of Ohio's school funding on local property tax.
3. School district's requirement to borrow through the spending reserve and emergency school assistance loan programs.
4. The lack of sufficient funding in the General Assembly's biennium budget for the construction and maintenance of public school buildings.
5. The funding laws were inherently incapable of achieving their constitutional purpose.

Legislative Action in *DeRolph I*

In *DeRolph v. State* (1997) the court determined that Ohio's elementary and secondary public school financing system violated Section 2, Article VI of the Ohio Constitution which mandated a thorough and efficient system of common schools throughout the state. The court also made the same determination in May of 2000. A substantial amount of legislation has taken place since the 1997 ruling when the court asked Governor Taft and the General Assembly to remedy the situation.

Ohio School Facilities Commission

On May 20, 1997, the Ohio School Facilities Commission was created and transferred the responsibility for the Classroom Facilities Assistance Program from the State Board of Education to the newly formed commission.

This legislation ("S.B. 102") required the commission to establish the Emergency School Building Repair Program and authorized money for major renovations and repairs of school facilities in some of the largest school districts in the state.

Biennial Budget Bill

The Biennial Budget Bill for FY98 and FY99 was signed into law on June 30, 1997 and made adjustments in the basic aid formula amount. It provided additional equity aid, additional funding for textbooks, additional funding for facilities, additional funding for the SchoolNet and SchoolNet Plus programs, and created the Disability Access Program.

Academic Accountability Bill

On August 22, 1997, the student and school district "Academic Accountability Bill" was passed and established school district performance standards and school district report cards. The bill also increased high school graduation requirements and instituted a "fourth-grade guarantee" that prevented advancement to the fifth grade unless the student passed a fourth grade proficiency exam. (The State of Iowa passed similar legislation in the 2000 session in House File 2272 that required comprehensive school improvement plans tied to school district performance standards.)

School District Fiscal Accountability Act

This act was signed into law on the same day as the Academic Accountability Bill and required school districts to maintain budget reserves and

required set-asides for building maintenance, textbooks, and instructional materials. The act also created the School District Solvency Assistance Fund.

School Funding Formula

Two separate bills signed into law made up the bulk of the remedy for the General Assembly. H.B. 650 and H.B. 770 were signed into law in February of 1998 and June of 1998 respectively. H.B. 650's purpose was to establish a new system for funding education. H.B. 770 modified H.B. 650's provisions. This legislation set out the essence of the current school-funding formula, including the base cost amount and the adjustments and subsidies. This bill also provided money for school facilities.

Capital Appropriations Bill

This bill signed into law on December 17, 1998, took effect for the biennium ending June 30, 2000, and provided money for school facilities with some specific funds designated for districts with exceptional needs.

Biennial Budget Bill for FY00 and FY01

This budget bill was signed into law on June 29, 1999; for Fiscal Year 2000 and Fiscal Year 2001 marked the first time that the state created an education budget separate from its main operating budget and placing the education budget into its own bill. H.B. 282 made adjustments to the per-pupil formula amount, made other adjustments in the funding formula, addressed gifted and talented education, and provided additional money for SchoolNet plus.

H.B. 283 was signed one day after H.B. 282 allocated state budget surplus revenue to SchoolNet plus and for school facilities. Districts with exceptional needs were given additional compensation.

Tobacco Master Settlement Agreement

A significant amount of the tobacco settlement funds were committed to for school construction and repair through S.B. 192 and signed into law on March 3, 2000. The legislation passed over a period of several years combined to make the components of the general description provided in the state funding section. Despite the efforts of the General Assembly the Ohio Supreme Court determined the mandate of the Constitution had yet to be fulfilled. (Specifically the state's failure to address the overreliance on local property taxes)

CHAPTER 4

STATE FUNDING PROGRAMS

Texas School Finance Plan
(Texas plan description from *The Basics of Texas Public School Finance*,
publication of the Texas Association of School Boards)

The State of Texas supported 1,036 school districts in the 2000-2001 school year that levied property tax and six districts with no taxable property that were supported entirely by the state. Texas also maintained over 100 open enrollment charter schools with no taxing authority that were also funded by state dollars. The funding for the public school district budgets was generated through local funds primarily consisting of local property tax, state funds, the available school fund, general revenue, and federal funds. Local funds make up 56% of the total education budget while 43.5% was derived from state funds and 0.5% was received from federal sources for a total of nearly \$21 billion for education in Texas.

Foundation School Program

Public school funding in Texas was a shared relationship with state funding and local revenue generated through property tax. The state provided funding to school districts in an inverse relationship to district wealth. School districts with high property values received less state aid than the districts with lower property values. The combination of state and local fund distributed in relation to the wealth of the district was meant to equalize the overall school

funding. The Foundation School Program (FSP) distributed the state and local funds through a system of formulas.

The FSP system consisted of three tiers. The first two tiers of the foundation plan included adjustments and weights to distribute funding according to the school district's characteristics and students. The third tier was created in the 1999-2000 school year and provided support for facilities.

Tier I

The base or "foundation" funding level was referred to as Tier 1 of the Texas FSP. The calculation began with the "basic allotment" or the base level of funding for each student in the average daily attendance (ADA). This amount was set at \$2,537 for the 1999-2000 school year. The state multiplied the Basic Allotment by individual district adjustments that included the Cost of Education Index (CEI), Small and Mid-Size District Allotments, and the Sparsity Adjustment. The Cost of Education Index reflected geographic cost variations deemed beyond the control of the school district. The index was primarily based on teachers salaries of neighboring districts, school district enrollment, and percentage of low-income students. The 2000 Texas Legislature requested a complete study of CEI. The Small District Adjustment and Mid-Size Adjustments were designed to help compensate for the economies of scale serving smaller student populations. The Small District Adjustment was reserved for those school districts with fewer than 1,600 students while those greater than 1,600 but less than 5,000 received the Mid-Size Adjustment. The Sparsity Adjustment was

submitted to districts with a combination of low enrollment and more than 300 square miles.

The district allotments for size, sparsity, and cost factors were applied to Basic Allotment to result in a new per pupil figure referred to as the Adjusted Allotment. Students enrolled in special programs were given instructional program weights. The program weights were applied to special education, compensatory education, bilingual education, career and technology education (vocational programs), gifted and talented education, and students enrolled in the public education grant program. Special education weights ranged from 1.1 for mainstream programming to 5.0 for the most severe students in special settings. Career and technology education students received an additional 0.37 weighting for the vocational programs in grades 7-12. Vocational students and special education students were counted on a full-time equivalent basis. As an example, a special education student receiving a 5.0 weighting would generate five times the Adjusted Allotment, while the vocational student received 1.37 times the Adjusted Allotment.

Example:

Adjusted Allotment = \$3,400

5.0 Special Education student: $5.0 \times \$3,400 = \$17,000$

1.37 Vocational students: $1.37 \times \$3,400 = \$4,658$

Compensatory education provided an additional 0.20 funding for students who were not at grade level and added an additional 2.41 weighting for pregnant students. Bilingual students whose native language was not English received an

additional 0.10 weighting to fund English As A Second Language programs. Gifted and Talented Education received an additional weighting of 0.12 for delivery and service of advanced programming. The weights applied to these three special programs were added to the total enrollment of each district. For example, each student enrolled in Gifted and Talented Education added 0.12 to the total enrollment. A sample calculation for each program would be as follows:

District enrollment:	2,100 students
Gifted Students (10)	$10 \times 0.12 = 1.20$
Bilingual Students (30)	$30 \times 0.10 = 3.00$
Compensatory Students (5)	$5 \times 0.20 = 1.00$
Pregnant Students (2)	$2 \times 2.41 = 4.82$
Total Enrollment	$2,100 + 1.2 + 3.0 + 1.0 + 4.82 = 2,110.02$

The district gained additional funding for 10.02 students amounting to \$34,608 if the Adjusted Allotment of \$3,400 was used.

Transportation funds were also included in Tier 1 but were not included on a per-pupil basis. These costs were computed on the number of students and bus route miles. The district received a total transportation payment based on these factors.

To participate in the school finance system, a school district was required to levy a local property tax rate of \$0.86. Texas tax laws listed tax rates per \$100 of taxable valuation. A rate of \$0.86 levied on a \$100,000 home would be calculated as follows: $\$0.86 \times (100,000 / 100) = \$0.86 \times 1,000 = \$860.00$. The Local Fund Assignment (LFA) was the district's share of the Tier 1 cost with the revenue generated by the \$0.86 tax rate. Districts that could generate the entire Tier 1 costs from the \$0.86 rate received no state aid while districts that could

not generate the entire amount received the difference in state aid. This concept was common in many states and all three states in this study provided an equitable distribution of state funds in relation to varied property values.

Tier 2

Tier 2 provided funds for equalization to school districts beyond the base funding level in Tier 1. Districts were required to levy a property tax in Tier 1 while the Tier 2 tax was discretionary. Districts were allowed to levy up to \$0.64 of tax rate for maintenance and operation in Tier 2, but were not required by Texas law to do so. Tier 2 generated resources for education through a guaranteed yield. A single penny of property tax generated \$24.99 per student in "weighted average daily attendance," WADA. Weighted average daily attendance was the calculation made in a previous section on weighted programs and their effect on district total enrollment. A district with property wealth below \$249,000 per WADA received a combination of state and local revenue while the state revenue made up the difference to get to the \$24.99 level per student. Districts with property wealth between \$249,000 and \$295,000 per WADA generated only local taxes in Tier 2. If a district had more than \$295,000 per WADA, it generated more than the \$24.99 per penny per pupil and then could only generate Tier 2 funds for maintenance and operations but could not use the revenue for capital outlay or debt service. Chapter 41 of Texas Education Code required that districts with wealth above the \$295,000 per WADA be subject to a wealth reduction provision. The districts that were above

the \$295,000 per WADA amount were required to reduce their wealth by selecting one of five options. The method recapturing wealth has been referred to as the “Robin-Hood Mechanism.” The five options were as follows:

Option 1 or Consolidation by Agreement allowed two or more districts to agree to consolidate to create a new district with wealth below the \$295,000 per WADA threshold.

Option 2 or Detachment and Annexation by Agreement gave a district the ability to detach property and attach it to a neighboring district. The releasing district was required to reduce value below \$295,000 per WADA and the district gaining property must stay below the lowest threshold of \$249,000 per WADA.

Option 3 or Purchase of Attendance Credits allowed a district with wealth above the \$295,000 level to purchase attendance credits from the state. One credit was equal to one student in the WADA. This buy-back program was utilized more than any other option.

Option 4 or Contract for Education of Nonresident Students permitted a district above the wealth ceiling to enter into an agreement with a qualifying district to pay the cost of educating students in that district. This option added weighted students to the paying district's student count while the state deducted the average entitlement from the receiving district. The option was utilized second only to option 3.

Option 5 or Tax Base Consolidation was the final option allowed where two or more districts may hold an election to create a consolidated taxing district for the maintenance and operations of the districts. The new district could not maintain a WADA per pupil wealth above \$295,000.

Tier 3

Tier 3 funds were created in the 1997 school year to allow districts to receive funds from a new guaranteed yield program to be used for construction or lease-purchase of new instructional facilities. The Texas Legislature provided \$200 million in the 1997-1998 biennium and increased the amount to \$400 million for the 1999-2000 biennium. A school district whose voters granted authority to sell bonds to pay for instructional facilities could make application to the state for assistance. Districts were permitted to adopt up to \$0.50 of tax rate (\$5.00 of tax rate in Iowa) for debt service at the time the bonds were issued. State assistance was based on the amount needed to service the debt and limited to the lesser of the actual annual debt service payment up to \$250 per the average daily attendance. If a district had fewer than 400 students, they were eligible for the lesser of \$100,000 per year or their actual debt payment. The state aid assisted in funding the debt service and quite often allowed the school district to lower their tax rate because of the state assistance. The state funds were equalized per penny just as in the Tier 1 to provide property poor districts more state assistance than higher-wealth districts. Districts subject to Chapter 41 of the Texas Education Code who were above the wealth of \$295,000 per

WADA did not qualify for instructional facilities assistance. In 1999 the Texas Legislature appropriated new funds to assist school districts to pay old debt. The new Tier 3 guaranteed \$35 per penny per unweighted student up to maximum of \$0.12 of debt service tax. Districts who received Tier 3 funding were required to compress their tax rate to provide tax relief to local taxpayers.

The Texas Legislature also recognized the needs of rapidly growing districts by providing \$25 million of aid in the form of a per pupil allotment for new schools. For the first year a school was open in a district, the state provided \$250 per student in the new facility. In the second year the district was entitled to \$250 for each new student to the school.

Ohio School Finance Plan

The State of Ohio has experienced several court challenges in the past two decades. School finance has been the focus of the litigation brought forth by a coalition of school districts challenging the equity and adequacy of funding. The Supreme Court deemed the system of school finance unconstitutional twice since 1997 and as recently as May of 2000. The Court gave the Ohio Legislature the task of reconfiguring the finance system. The school funding description in this study reflects the system in place during the fiscal year 2000 and does not contain any changes from the 2001 Legislative Session.

The State of Ohio along with local and federal sources allocated \$14 billion for education. Ohio contained 611 public schools, 49 joint vocational

districts, and 64 educational service centers that received these funds earmarked for education.

Local revenues were generated through property tax and assessed as a millage rate. For comparative purposes 1 mill was equivalent to \$1 per \$1,000 of taxable valuation as used in Iowa. Ohio determined the amount of taxable valuation by calculating the market value of a home and incorporated an assessment rate of 35% of the taxation value. As an example, if a home had a market value of \$100,000, with the rollback factor the home would be taxed on \$35,000. If 30 mills were assessed by the school district, an amount equal to \$30 per each \$1,000 of taxable valuation was collected. The \$35,000 taxable valuation divided by 1,000 yields 35 to multiply by the \$30 tax rate or $\$30 \times 35 = \$1,050$ of property tax for the home owner. Properties exempt from property tax in Ohio were federal buildings and lands, state buildings and lands, political entities, educational buildings and lands, and religious properties.

Ohio defined three different millage factors allowed by each school district. An "inside" or unvoted millage levy could be made by a school board without voter approval. The maximum amount allowed by constitutional provisions for an inside levy was 10 mills or \$10 per \$1,000 of taxable valuation. The average inside levy by school districts in Ohio was 4.6 mills. Local governments found it difficult to finance existing programs on the 10 mills of taxation and were forced to ask for additional mills by voter approval. The constitution of Ohio allowed the school district to go "outside" to the voters for the additional voted millage. This millage rate was called the "outside" or voted mills

used to gain additional mills of taxation. As property values increased the voter rate was adjusted down to provide no increase in revenue due to the increases in property value or increases due to inflation. State law enacted in 1976 did not allow for a voted levy increase revenue for a district due to inflation or reassessed values. The new rate was determined by the county auditor and was referred to as the "effective rate." This reduction factor stopped when the effective millage rate reached 20 mills or \$20 per \$1,000 of taxable valuation. The 20 mills was referred to as the "20 mill floor." If a school district had a voted millage rate of 22 mills and had a reduction factor of 4 mills that placed the effective rate at 18 mills then the county auditor was required to raise the millage to 20 mills.

Ohio residents received an additional form of tax relief through a state-funded 10% reduction of the taxpayer's individual property tax. The county auditor certified the individual tax bill and deducted 10% from the bill and informed the state of the compensation needed. The school district received the 10% rollback compensation directly from the state. Property owners also qualified for a homestead credit of 2.5% to receive a total deduction of 12.5%.

Levies were the mechanism for additional local revenue to increase the funds available for school district operations. The levy purpose was limited to the following: operating expenses, specific improvements, recreational purposes, community centers, support for public libraries, and educational technology. These levies could be proposed for a specified time period and were usually from one to five years. The short period of time for the duration of

the levy gave it the name of a “limited levy.” A “continuing levy” was assessed indefinitely or until the tax was repealed by the voters or the board instructed the county auditor to resend the levy.

Ohio school districts had six different levy options, a county-wide tax levy, and an income surtax as sources of potential revenue. The property tax levy used to provide revenue for construction and infrastructure purposes was funded by a bond issue or bond levy. The bond levy was for a specified period of time, typically 20 years, and was used to pay the principal and interest on the construction bonds. The income surtax, referred to as School District Income Tax (SDIT), was used for operating expenses or permanent improvements. Ohio is one of four states along with Iowa, Pennsylvania, and Kentucky that allow school districts to levy an income tax.

The school income tax law allowed a single ballot issue to be continued to reduce or repeal one or more existing property tax levies. Each school district could take unilateral action to reduce any existing tax levy by contacting the county auditor without being tied to a ballot or to an income tax. In the tax year for 2000, 123 districts selected the option to levy the school income tax.

State Funding Calculations

The State of Ohio determined a per pupil amount that represents what the state believed will adequately educate one child for one school year. This dollar amount was referred to as the “foundation figure,” the “state aid figure,” or the “per pupil allotment.” The dollar figure used for the 1999-2000 school year was

\$4,052 and was increased 6% to \$4,294 for the 2000-2001 school year.

Kindergarten students counted as a 0.5 student and students in a vocational setting were counted as a 0.25 student. The state also determined a multiplier called the "cost of doing business factor," CDBF. The state recognized the cost of components to operate a school system with the need to purchase supplies, gasoline, or utilities. These costs varied depending on the location of the district in rural, suburban, or inner city areas. The CDBF was calculated by the state and had the ability to increase the base formula amount in districts that maintained a high cost of living.

The local property tax portion of the basic school budget was also determined by the state. The millage figure called the "chargeoff" was currently set at 23 mills or \$2.30 per \$1,000 of taxable valuation. The districts with high property valuations paid the major portion or all of the per pupil amount while the low property valued districts received state aid to makeup the major portion of the basic school budget.

To determine the basic school budget, the components described in the previous paragraphs makeup a simple multiplication problem. The student enrollment multiplied by the state basic formula amount was multiplied by the cost of doing business factor to equal the basic school budget amount. To determine the state's portion of this total, subtract the taxable value of local property and use multiplier by the chargeoff factor.

The formula would appear as follows:

(student enrollment X state formula amount X the cost of doing business) -
 (taxable property value X chargeoff) = state money to the local district.

A sample district with 2,560 students, \$102,700,000 of taxable valuation and a cost of doing business factor of 1.20 would produce the following calculation.

$(2,560 \times \$4,294 \times 1.20) - (\$102,700,000 \times .023) = \text{State share}$

\$13,191,168 - \$2,326,100 = \$10,865,068

School districts who served special education students received additional funding to educate them based on the severity of their disability. The students received weighted funding under three different categories. Students with a learning disability, a health handicap, or developmental handicapped were funded with an additional 0.22 at Category One. A Category Two student included those students who were hearing impaired, were physically challenged, were vision impaired, or had severe behavior disorders; these students received an additional 3.01 weighting. Category Three students were the most severe and included those with traumatic brain injuries or both visual and hearing impairments. These students were also weighted at 3.01, but districts were eligible for partial reimbursement of any costs that exceeded \$25,000 per pupil.

Disadvantaged pupils whose families received funds from the Ohio Works First (OWF) program qualified for additional school funding. These students came from economically disadvantaged situations and typically incurred additional costs beyond the state foundation formula for their education.

Disadvantaged pupil impact aid (DPIA) was allocated on an index calculated by the state and could be used for safety and remediation, all-day kindergarten, or

class-size reduction. Safety and remediation funds were remitted to districts with a DPIA index greater than 0.35; all-day kindergarten funds were given to districts with an index greater than one, and class size reduction funds were given to districts with a high concentration of poverty to reduce class size to a 15:1 student / teacher ratio.

Ohio Funding Issues

Phantom Revenue

Phantom revenue was a factor associated with the millage reduction factor. The reduction factor caused the state foundation formula to misrepresent the amount of local revenue generated. Using the funding example above with a reassessed property value of \$105,000,000, the state assumed the local share was 23 mills or \$2,415,000. The state then would send a lesser amount to the district in the amount of \$10,611,369 or a loss of \$52,900 of state aid which in theory was made up by the local portion. The problem arose in the millage reduction factor on any local revenue growth in certain categories due to increased property valuation. The categories made up about 30% of the total property tax collected. The difference between the actual revenue the district received and the \$52,900 was referred to as "phantom revenue." The state responded to this issue by enacting a law in 1997 that allowed the districts to phase in the growth in valuation over a three year period. This concept was known as "recognized valuation." This concept did not solve the issue but

reduced the deficit in state funding and was a detriment to districts with rapidly growing tax bases.

School districts losing enrollment or experiencing reduced taxable valuation faced significant loss of revenue for existing programs. The “state guarantee” prevented a district from receiving lower state funding due to a change in their state foundation formula calculation.

Tax abatements

Tax abatement has been used for many years in Ohio as a commercial business development incentive. As in other states, tax abatement was a topic of controversy on its application and its effect on tax revenue for public entities. Abatements were granted by counties, townships, villages and city municipalities. Governing bodies were required to inform school districts of a pending abatement and could ask for limits on the percentage of abatement and length of time. However, districts had no ability to approve or disapprove any abatement. Ohio school districts received nearly 70% of all property taxes and therefore sacrificed the loss of revenue or the ability to lower tax rates. An abatement could last no longer than 10 years without the approval of the local school district and could be for no more than 75% of the value of the improvements. The Ohio tax reduction factor worked against the local districts when abatement was given on certain classes of property that directly reduced the funds a district would receive from the increase in commercial business growth. Legislation in the five years beginning in 1995 gave school districts

some relief to recover lost revenues due to housing subdivisions that granted tax abatements.

Community Schools / Open Enrollment

Ohio law provided for students to attend another tuition-free school or private school chartered by a governmental entity if the receiving district chose to accept them. The funding for this program came through a deduction of the per pupil amount from the sending district's state foundation payment and was transferred to the receiving district. The base formula amount was multiplied by the cost of doing business factor. This method of funding was an issue for districts who had differing cost of doing business factors and districts with differing amounts of state aid per child. Finance officials regarded this transfer from district to district as local tax dollars going to another educational body. The concept of "taxation without representation" was echoed by the opponents of open enrollment in Ohio.

Ohio Litigation

The Ohio Supreme Court deemed the school finance system unconstitutional twice in four years. (In March of 1997 and again in May of 2000.)

The Supreme Court's decision stated:

Although we have found the school financing system to be unconstitutional, we do not instruct the General Assembly as to the specifics of the legislation it should enact. However,

we admonish the General Assembly that it must create an entirely new school financing system. In establishing such a system, the General Assembly shall recognize that there is but one system of public education in Ohio. It is a statewide system, expressly created by the state's highest governing document, the Constitution. Thus, the establishment, organization and maintenance of public education are the state's responsibility. A thorough and efficient system of common schools includes facilities in good repair and the supplies, materials, and funds necessary to maintain these facilities in a safe manner, in compliance with all local, state and federal mandates.

The General Assembly of Ohio tried a series of enactments along with a proposal to increase the sales tax by one cent. The proposal went to the voters of Ohio and was defeated by an 80% to 20% margin. The base formula amount was reconfigured using 100 school districts that met 18 outcomes deemed necessary to be considered an "effective school district." The per pupil amount was established at \$4,063 and adjusted each year for inflation and must be reviewed every six years.

The state has eliminated the spending reserve borrowing authority and the emergency loan fund. The General Assembly created the school solvency

assistance fund that provided money without interest to districts in severe financial need.

Prior to the court rulings, school districts were solely responsible for their own facility needs. The districts with the least amount of property wealth received some assistance from the state, but the funding was generally not available. In 1997 an independent body called the Ohio School Facilities Commission was formed to administer a \$300 million building program for emergency repairs and school construction. The funding increased to \$305 million in 1998 and \$415 million in 1999. Local districts were required to contribute to the project based on the local wealth through a bond levy.

These changes and programs were still in a state of flux due to the ruling in May of 2000. Additional funding options and developments were yet to be developed to meet the constitutional muster.

Iowa School Finance Plan

The Iowa Foundation Plan provided for a combination of state and local revenues to fund the major portion of the educational program. The state foundation plan was driven by pupil enrollment certified by the state in September of each year. This enrollment figure determined the funding for the following school year. The State Legislature of Iowa determined a per pupil amount each year by determining a percentage of allowable growth. The allowable growth fluctuated between 3.5% and 4% over the five years previous

to 2002. A proposal for only one percent was set before the Legislature in January of 2002 due to budget issues and decreased revenues from the recession period in 2001. A 4.3% across-the-board cut in December 2001 forced many districts to cut expenditures and use cash reserves supported by local property tax. An example of how the allowable growth affected the per pupil amount is demonstrated below:

2000-2001 Per Pupil Amount = \$4,338

2001-2002 Allowable Growth was set at 4%

2000-2001	Per Pupil Amount	$\$4,338 \times .04 = \174 of growth
		\$4,512 per pupil

The allowable growth percentage was determined early in each session to allow school districts adequate time to plan budgets and staffing needs for the coming school year. The allowable growth was set for the following two school years as a biennium rate. The 2002 Legislature was faced with a decision to reduce the allowable growth factor for the 2002-2003 due to the disastrous economic conditions in the Iowa economy. The second year of 4% was in jeopardy and will likely no more than 1% for FY2003.

Weighted Enrollment

Each enrolled student counted as 1.0 in the district enrollment while those students in special programs received additional weighting. Special education students received weighting by the severity of the disability. Students identified with a learning disability who were served mainly in the regular classroom

received a weighting of 1.67, those who needed a more restrictive environment were weighted 2.38, and those with the most severe issues were weighted at 3.60. The weightings were multiplied by the per pupil amount to determine the district costs for these students and for billing purposes between districts who shared students or programs. If the per pupil amount was \$4,338, a student with multiple disabilities weighted at 3.6 would generate $\$4,338 \times 3.6 = \$15,517$ for the district of residence. If the student attended another district, the receiving district was allowed to charge the resident district actual costs for the education of that child.

Supplemental Weighting

Supplemental weighting was granted to a school district for sharing individual courses, vocational programs, teachers, and for non-English speaking students. Various weightings from 0.1 to 0.46 are allowed for these programs and were added to the total enrollment figure.

Sample Foundation Calculation

The sum of the actual enrollment, special education weighting, and supplemental weighting determined the district's weighted enrollment. The weighted enrollment multiplied by the state-determined per pupil amount determined the majority of the General Fund for school districts in Iowa. The combination of state and local revenue was equalized through the Uniform Levy of local property tax and state aid up to 87.5% of the certified enrollment times the per pupil amount. Weighted student enrollment for special education

students was equalized up to 77% of the weighted enrollment times the per pupil amount. Each local district was required to levy property tax at a rate of \$5.40 per \$1,000 of assessed valuation to generate the local share. The lower the assessed valuation per pupil in a district meant more state aid was received to offset the lack of wealth. Districts with high valuations received a lower amount of state aid. The state aid portion was limited to make-up the difference to the 87.5% level of per pupil cost times the weighted enrollment. To illustrate the difference in how school district property wealth impacted the state aid portion in two districts, District A and District B, are illustrated below:

<u>District A</u>		<u>District B</u>	
Regular Enrollment	2,000	Regular Enrollment	2,000
Weighted Enrollment	84.2	Weighted Enrollment	84.2
Supplemental Weight	15.8	Supplemental Weight	15.8
Total Enrollment	2,100	Total Enrollment	2,100
Per Pupil Amount	\$4,338	Per Pupil Amount	\$4,338

Identical Calculations in District A and District B

- Enrollment X Per Pupil Amount: $2,100 \times \$4,338 = \$9,109,800$
- Weighted Enrollment: $84.2 \times \$4,338 = \$365,260$
- Supplemental Weight $15.8 \times \$4,338 = \$68,540$
- Total: $= \$9,543,600$
- 87.5 % Level: $\$9,543,600 \times 87.5\% = \$8,350,650$

District A
 Assessed Valuation: \$200,000,000
 Uniform Levy: \$5.40 per \$1,000
 Local Revenue:
 $\$5.40 \times 200,000 = \$1,080,000$

District B
 Assessed Valuation: \$500,000,000
 Uniform Levy: \$5.40 per \$1,000
 Local Revenue:
 $\$5.40 \times 500,000 = \$2,700,000$

State Aid to District A:
 $\$8,350,650$ (87.5% level)
 $-\$1,080,000$ (local revenue)
 $\$7,270,650$ (state aid)

State Aid to District B:
 $\$8,350,650$ (87.5%)
 $-\$2,700,000$ (local revenue)
 $\$5,650,650$ (state aid)

District A received \$1,620,000 more in state aid than District B. (Please note special education students are computed differently with state aid up to the 77% level were not computed above for the illustration of property wealth differences.)

To get to the 100% level of total enrollment times the state per pupil amount the district was forced to collect an additional levy to make up the difference. The tax rate for each district was significantly different to make up the last 12.5%. Each district must make up $\$9,543,600 - \$8,350,650 = \$1,192,950$ to get to the 100% level of funding. District A must levy an additional \$5.96 per \$1,000 while District B must ask the taxpayer for an additional \$2.39 per \$1,000. The total tax levy from each district needed to reach the combined state and district cost became \$11.36 per \$1,000 of assessed valuation for District A and \$7.79 per \$1,000 of assessed valuation for District B.

The difference in assessed property values between the two districts with identical student populations related to a dramatic difference in property tax assessed to the taxpayer. Identical homes valued at \$150,000 and a rollback of 55% of value will be assessed property tax on pay taxes on \$82,500 of value. The tax rate in Iowa is calculated on dollars per \$1,000 of taxable valuation. Each taxpayer would pay 82.5 times the dollar rate determined above. In District A, $\$11.36 \times 82.5 = \937.20 is collected and in District B, $\$7.79 \times 82.5 = \642.68 . The two amounts represented tax revenue from each district to support the foundation plan. The combination of state aid and local property tax revenues were inversely related up to the 87.5% level; however, to complete the

funding to the 100% level, the local taxpayer was impacted significantly in the lower property value district. A difference of nearly \$200 in tax asking developed after the initial uniform levy of \$5.40 mandated in all school districts in Iowa. The 87.5% foundation level ceiling was capped by law. Each additional 1% increase in foundation level equated to a \$25 million decrease in property tax across the state.

Additional Levies in Iowa

Physical Plant and Equipment Levy

The revenue generated by the Physical Plant and Equipment Levy (PPEL) was used to remodel existing facilities, fund construction, purchase school buses, purchase building sites, repair roofs, and fund general district maintenance. The school board had the authority to levy \$0.33 per \$1,000 but needed voter approval to increase the levy beyond this amount. A majority voter approval or 50% plus one vote was needed to add an additional \$0.67 per \$1,000 for a period of 10 years. A district could also ask voters to add a second \$0.67 per \$1,000 under the exact conditions once the first levy was accepted by the voters. The maximum combination of all three levies could not exceed \$1.67 per \$1,000. This levy could also be partially funded by state income surtax to generate revenue from all residents and not just those owning property. Iowa was one of only a few states that allowed an income surtax for school funding of any kind.

Public Education Recreation Levy

The Public Education Recreation Levy (PERL) was a rarely utilized levy available that could be voted in to effect on a one-time basis. The levy maximum was \$0.135 per \$1,000 and could be used for community education and playgrounds. The tax was in effect in only 19 districts in Iowa. A majority voter approval rate was needed to put the PERL in effect.

Management Levy

The Management Fund could be approved by the school board and used for early retirement programs, liability insurance, and property insurance. The levy amount was determined by the board each year to fund district insurance premium and retirement programs. The Management Fund could only be used for these general purposes and was directly generated by local property tax. Revenues from this fund were allowed to be carried forward to the next fiscal year.

Debt Service Levy and Local Option Sales Tax

The tax revenue generated through the Debt Service Levy was used to retire debt incurred for major construction and remodeling projects through bond issues. A bond referendum presented to the voters in Iowa must be passed by a "super majority" or 60% approval for passage. This fund was limited to \$2.70 per \$1,000 of taxable valuation unless the district went to the voters to approve additional taxing authority to \$4.05 per \$1,000. The increase in taxing authority also needed a 60% majority to incur further debt. The Debt Service Fund was

limited to local property tax until legislation passed in 1998 allowed individual counties in Iowa to increase the sales tax one cent. Major construction and remodeling could also be funded through the local option sales tax revenue. This voter-approved sales tax increase needed a majority approval rate to implement the tax. Currently 23 counties have passed the local option sales tax. This funding stream caused considerable debate on equity and created a verbal divide between rural and urban schools. Revenue was distributed on a per-pupil basis by the student's residence. School districts in Iowa were not based on a county structure, and many school districts crossed county lines and had students living in more than one county. Districts received local option sales tax revenue on only those students residing in the county where the sales tax was in place. The counties with local option sales contained the retail centers in Iowa and, therefore, generated significantly more revenue than rural counties. The 99 counties in Iowa had the potential revenue per student ranging from \$980 per student to \$95 per student if implemented in a student's county. School districts were allowed to use this revenue to build new facilities, remodel existing facilities, and pay down existing debt incurred in previous bond issues.

Cash Reserve Levy

The Cash Reserve Levy provided a mechanism to allow a district to build a contingency fund through property tax revenues. The school board could determine the tax rate levied each year for cash reserve to become a component of the general fund. The money in this fund could be accessed through a

presentation to and then permission for additional spending authority from the School Budget Review Committee (SBRC). Districts with increasing enrollment or unique circumstances were given permission to amend their budgets and given the additional spending authority based on the increased amount from cash reserve. A district was not allowed to accumulate more than 25% of the value of the district's general fund in the cash reserve fund. The Department of Management monitored this levy and amount and would not allow a district to surpass the maximum. This fund could also be used to begin a new program and provide the necessary revenue to cover initial costs. School boards annually looked forward to the coming years for needs and enrollment projections to sufficiently levy an amount to provide for future needs.

Instructional Support Levy

The Instructional Support Levy was the only levy outside of the Foundation program that was a combination of state and local funds. A district could levy for no more than 10% of their regular program budget for a period of five years by board approval or 10 years by voter approval. The state has not been able to keep to its original intent of 25% of the funding. The districts have had to make up the difference as the state continues to operate this funding as a shortfall.

Categorical Funding

The State of Iowa provided funding on a per-pupil basis for technology, talented and gifted, and Phase III school improvement programming. These targeted funds were to be expended according to a state-approved district plan.

Technology funds were initially earmarked for hardware, peripheral equipment, wiring, and purchased service contracts but were not allowed to be spent for software or technology personnel. The 2000 Legislature allowed personnel expenditures and software purchase with technology dollars after many districts lobbied for the expanded use. The Department of Education found compliance difficult to monitor and that many districts were already using the technology funding for technology department staff and for software. Each district received \$67 per student for technology. Few districts could fund all technology purchases and programming within the district with state technology dollars alone. In the fiscal year ending in June of 2002, the state reduced the amount by two-thirds to \$33 per student forcing districts to use local funds to continue technology programming already in place.

Talented and gifted education funding shifted from strictly property tax through allowable growth plans approved by the Department of Education to a state-wide per pupil amount. The additional \$37 per student for gifted and talented education was added to the foundation formula student amount. Each district must submit a plan for gifted and talented programming as part of its Comprehensive School Improvement Plan (CSIP).

Phase III funding began as a financial incentive for educational excellence through innovative programs in Iowa schools. The majority of schools used this revenue for additional staff time in curriculum writing and professional development. Phase III dollars were distributed to districts in quarterly payments amounting to \$36 per student.

CHAPTER 5

SUMMARY, CONCLUSIONS, IMPLICATIONS AND RECOMMENDATIONS

Summary of Issues

The venue for school funding challenges has remained at the state level with reference to state constitutions following the United States Supreme Court case of *Rodriguez v. San Antonio ISD*. The 1972 decision determined that education was not a fundamental right protected by the Fourteenth Amendment for equal protection. A strong message was sent to Texas from the high court to develop a more equitable system. All challenges to state finance plans have remained at the state level with no appeals to the federal court since *Rodriguez*.

The Constitution of Iowa contained original language defining common schools before it was codified in Article IX, Section 12, Common Schools:

The Board of Education shall provide for the education of all youths of the State, through a system of Common Schools and such school shall be organized and kept in each school at least three months in each year. Any district failing, for two consecutive years, to organize and keep up a school as aforesaid may be deprived of their portion of the school fund (Constitution of Iowa, 1946).

This section was omitted from the codified Constitution with language indicating that certain provisions superseded or obsolete have been omitted from

the codified Constitution. A section in the Code of Iowa referred to the laws that apply to common schools and must apply alike to those schools.

Iowa Code Chapter 274: School Districts in General under Section 2

(274.2) General Applicability:

The provisions of law relative to common schools shall apply alike to all districts, except when otherwise clearly stated, and the powers given to one form of corporation, or to a board in one kind of corporation, shall be exercised by the other in the same manner, as nearly as practicable. But school boards shall not incur original indebtedness by the issuance of bonds until authorized by the voters of the school corporation (Code of Iowa, 2000).

The code reference made a reference to provisions of law applying to all districts alike. The local option sales tax was in a ratio of 1:10 in counties across Iowa and property tax valuations in a ratio of 1:6 as well, prompting the issue of equity for treating schools alike in reference to Iowa Code.

The Constitution of Ohio contained wording that secured a thorough and efficient system of common schools.

Article VI, Section 2:

The general assembly shall make such provisions, by taxation, or otherwise, as, with the income arising from the school trust fund, will secure a thorough and efficient system

of common schools throughout the state; but no religious or other sect, or sects, shall ever have any exclusive right to, or control of, any part of the school funds of this state (Constitution of Ohio).

The Constitution of Texas contained wording that supported and maintained an efficient system in its description of public schools.

Article 7, Section 1: Support and Maintenance of System of Public Free Schools.

A general diffusion of knowledge being essential to the preservation of the liberties and rights of the people, it shall be the duty of the Legislature of the State to establish and make suitable provision for the support and maintenance of an efficient system of public free schools (Constitution of Texas).

The constitutional provisions in Iowa were not as specific as in Ohio and Texas where the provisions included the phrases of "thorough and efficient" and "efficient, free schools." The specific correlation of efficiency to equity has caused the states of Ohio and Texas to spend multiple years in litigation working to reform school funding. The *DeRolph II* decision in Ohio based the "thorough and efficient" constitutional language violation on the heavy reliance on property tax to fund school facilities and educational programming. Texas spent the majority of 15 years in court to reach a system that provided similar revenue for similar tax effort through a tiered system of equalization. The absence of

reference to the descriptive language in Iowa's Constitution for equity, efficiency, or adequacy may prove to make litigation more difficult and would likely need reference to other states to make the case a viable one.

County-Based Funding and Credits

Iowa entered new territory when the Legislature passed the Local Option Sales Tax that provided revenue for school infrastructure. The revenue, based on retail sales within a county and distributed equally by student population in that county, began in 1998 in Woodbury County. Soon thereafter, school district leaders in the retail centers in Iowa began to see the significant revenue the sales tax could generate. By the end of 2001, 23 counties had successfully passed the sales tax leaving 76 counties without the tax.

The Local Option Sales Tax Law in Iowa was voted and calculated on a county-wide basis. A county could increase the sales tax one penny through a referendum and simple majority passage rate. The sales tax was collected over a period of 10 years and distributed to school districts within the county on a per pupil basis. Districts that spanned more than one county received funds for only the students who lived within the county where the tax was collected. The revenue generated from the one cent sales tax could only be applied to new school construction projects, existing debt from previous construction, and infrastructure maintenance needs. Iowa's 99 counties generated retail sales in a ratio of 1:10. The per pupil allocation varied from \$95 per student in Louisa county to \$980 in Polk County.

Twenty-three counties passed the sales tax increase through December 2001, with the majority containing retail centers and the larger cities in Iowa. According to figures from the Iowa Association of School Boards through year end 2001 slightly over 55% of the students who reside in Iowa received the benefits of local option sales tax. Additionally, the percentage of retail sales in Iowa that were subject to the penny sales tax collected in the 23 counties had increased from 48% to 55% in a period of two years. Only 23% of the counties benefited from well over half the retail sales in Iowa and were also home to over half of the students in Iowa. The remaining counties have not attempted to pass the tax due to the limited potential for retail sales in rural counties and those counties that ring the retail centers. The disparity of revenue generated between counties caused considerable debate on the disparity between the urban and rural communities and the rural school's ability to provide quality school facilities. The individual school districts within each county had significantly different taxable valuations but received identical amounts for each pupil residing in the county. The distribution of tax revenue within the county did not take into account the taxing capacity of each district. Districts with significant immediate infrastructure needs were investing the tax revenue in remodeling and new facilities while districts with larger bonding capacities enjoyed newer buildings while using the tax revenue to retire existing debt.

The school districts that fell within counties without the additional sales tax had to rely on traditional means for school construction. These districts were forced to pass a bond referendum for construction projects by a 60% super

majority passage rate. The amount a district could petition the voters was determined by its bonding capacity or its ability to repay the bonds through property tax collection. The wealth of the district in assessed property valuation determined the tax rate for bond repayment over a 20-year period of time. The higher the property wealth within a district, the larger the bonding capacity became with accompanied lower tax rate.

On the surface, the amount of local option sales tax distributed on per pupil basis appeared to be an equitable method. However, the wealth of each district within a county had no bearing on the distribution of the sales tax funds. The property rich districts that received sales tax revenue were able to buy down existing debt while building new facilities without incurring further debt.

In Polk County, for example, the Des Moines School District found 10 years of additional sales tax revenue fell well short of the needs for renovations, additions, and new buildings. On the other hand, the West Des Moines School District, a suburban district in Polk County, was able to tear down an existing football stadium and erect a new elementary school while building a new \$8.5 million football stadium. The West Des Moines District was also applying the sales tax revenue to existing debt to reduce their property tax rate.

Neighboring districts in counties adjacent to Polk County had significantly higher property tax rates and were as much as \$9.00 per \$1,000 of taxable valuation more than their neighbors in West Des Moines. The difference in tax rates severely thwarted the economic development efforts in the low property wealth districts who were working to attract commercial business. The lower tax

rate in the property-rich districts only enhanced their attractiveness for further development and perpetuated the disparity between districts separated by county lines.

The Cost of Doing Business Factor (CDBF) was Ohio's county-based system created to be an equalization factor in their foundation plan. The CDBF applied equally to all school districts within a county regardless of the wealth of the district or the true costs of operation in each district. The assumption was made that rural district's costs were lower as opposed to urban districts. The costs and the wealth of each school district within the county varied widely, but the CDBF was calculated the same. The CDBF was developed as a multiplier set by the state that increased the base formula amount to cover expenses in areas of salary, supplies, gasoline, etc. The CDBF percentage was multiplied by the state per pupil foundation amount. Districts with significant property wealth received identical revenue from the CDBF percentage as the districts within the same county who have limited taxable valuation. This county-wide factor was one of several issues specifically identified by the Ohio Supreme Court in the ruling.

The State of Texas made significant changes in the structure of public school finance in Senate Bill 351 by creating 188 "county education districts" or CEDs. Each CED had an elected board of trustees that was charged with levying a tax each year to collect the local share of the foundation program for all districts within the CED. The Legislature did not set the actual tax rate since the local tax base would vary from the state-determined tax base. The state hoped

that this fact would skirt the issue of a state property tax without a local vote.

The CED tax became the focus of the constitutionality of Senate Bill 351. The district court declared the CED tax to be constitutional in August of 1991 but was promptly appealed by the school districts as cross-claimant. In January 1992 the Texas Supreme Court, in a 7-2 decision, held the CED tax as unconstitutional when the court determined school district taxes were levied without local voter approval and the tax constituted a state property tax specifically prohibited by Article VIII, Section 1-e of the Texas Constitution. The CED tax was the first attempt to "recapture" local property tax from one or more districts and redistribute funds from property-rich districts to property-poor districts. The specific issues the court cited were as follows:

1. School district taxes were levied without voter approval as required in Article VII, Section 3.
2. The CED tax constituted a state property tax specifically prohibited by Article VIII, Section 1-e of the Texas Constitution.

The Legislature countered with Senate Bill 7 that required school districts with wealth per student above \$250,000 to engage in tax base reduction. The school districts above the cap were given several options of wealth reduction described in the Texas school funding description.

All three states had unique county-based sources of revenue through sales tax, property tax, or additional funding. Ohio and Texas found the county programs were an integral part of the court decisions for unconstitutionality.

Iowa had legislation in place allowing a county to pass a local sales tax specifically for use in school infrastructure. The tenfold difference caused intense debate about the inequity across the state and created an initial rift between rural and urban districts. This county-based sales tax was, therefore, the target of the lawsuit supported by the Coalition for Common Cents Solutions; the suit was not filed as of January, 2002. (See Appendix C.) The Coalition preferred to work toward a legislative solution that would create a state wide sales tax for school infrastructure and provide property tax relief for property owners across the state. The lawsuit was prepared to be filed on behalf of parents and students in non-retail centers in Iowa and was centered around the sales tax issue and the inequity perceived by the school districts in these areas. References to Ohio and Texas for issues on county based funds were an integral part of the preparation for the argument in the courts if the suit was to be filed.

A student's place of residence in Iowa became the determining factor in the quality of facilities and educational program provided in the resident school district. This issue was made in all three states as lawsuits were filed or prepared.

Equalization Efforts

The school foundation program in place in Iowa provided state funding in proportion to the property value of the district. Low property value districts received more state funding than high property value districts. The state funded

up to 87.5% of the per pupil amount after the Uniform Levy of \$5.40 per \$1,000 of taxable valuation was collected from local district funding. The per pupil amount was equalized up to the 87.5% threshold to distribute the same amount of revenue back to each district for the same tax rate. The percentage of equalization has been altered over the years and was moved up from 85% to the 87.5% level by the Legislature in 1998. The percentage was moved up in 1998 to push equalization further and provide potential property tax relief at the local level. The last 12.5% was strictly local property tax and subject to assessed values within the local school district. The property rich districts needed very little tax asking to make up this difference while low wealth districts were forced to increase their tax rate. The difference was as much as 6:1 between districts in Iowa. (See Appendix D.) Attempts were made at the legislative level in the late 1990s to try to equalize the Physical Plant and Equipment Levy. The legislature debated a bill to appropriate state aid to districts that could not generate the state average amount from local property tax. The bill failed to make it through the session due to the multi-million dollar state aid package needed to compensate districts below that state average.

The State of Iowa entered into school construction funding with the Vision Iowa Bill in the amount of \$50 million over three years beginning with fiscal year 2001. The first year districts applied through a competitive grant process for the first \$10 million with the final \$40 million spread over the next two school years. Districts with limited capacity for school infrastructure were given priority in the grant point totals and given reduced match amounts for the \$1,000,000 grants.

Districts with local option sales tax above the state average per student if all counties had the tax were exempt from the Vision Iowa program. This amount pales in comparison to the approximately \$300 million the Des Moines School District will receive in the next 10 years through local option sales tax in Polk County. The 23 counties in Iowa with local option sales tax contained the retail centers while the remaining 76 counties surrounding these centers had only Vision Iowa and local bonding capacity for school infrastructure funding. The attempts at equity through increased state aid in the school foundation plan and school infrastructure grants have not thwarted any discussions of equity or dismissal of litigation plans.

The State of Ohio has continued to infuse additional money into the school finance program with little effect on the issues of the *DeRolph I*, *DeRolph II*, and *DeRolph III* cases. The per pupil amount for the school foundation program is determined by the Ohio Legislature. At issue in Ohio was the actual amount and its adequacy as sufficient revenue to educate one student. In 1998 HB 650 was proposed to commit hundreds of millions of new state dollars specified to achieve an adequate level of funding over a period of five years. The dollar figure was figured by looking at the actual costs of funding a student in Ohio. The lawmakers determined that an increase in state sales tax would raise \$1 billion a year to provide the revenue for property tax relief, fund school operations, facilities, and educational technology. The voters of Ohio rejected the sales tax increase by a wide margin of 4 to 1. Additional funding was included in HB770 to appropriate \$300 million per year for classroom facilities

through 2001 until a committee will reexamine the costs necessary for an adequate education.

These efforts were rejected in subsequent rulings in the *DeRolph* case and were referred by Judge Lewis as minor changes largely as changes of form and not substance. Lewis determined the state's effort as "woefully inadequate" and ordered state education officials and the State Board of Education to develop a new finance system by January of 2000. As in Texas and other states in litigation, an appeal was filed allowing the legislature additional time to draft additional legislation. HB 282 was signed by the governor of Ohio in June of 1999 appropriating a record \$13 billion to fund schools in Ohio. The bill reduced property tax on business inventories but failed to address residential property taxation. The 1997 *DeRolph* decision and successive decisions (*DeRolph II* and *DeRolph III*) were critical of the educational system's heavy reliance on property tax and the state's inability to move toward equalization of tax effort. Ohio has continued to earmark additional state funds for education without significant reform to the property tax structure that forms the basis for funding public education.

The Ohio Supreme Court returned a 4-3 decision, a compromise, on September 6, 2001, to allow Ohio to move forward after 10 years of bitter battle in the courts. The Legislature approved a measure in June 2001 to increase state spending for education by \$1.4 billion over two years. The court ruling came with conditions of a court-ordered raise in the minimum spending for each student by more than \$300 up to \$5145 but did not set a deadline to meet the

increased level. The opinion ran counter to the “heavy reliance on property tax” directive in the previous *DeRolph* decisions. Chief Justice Moyer wrote that using property tax “is unconstitutional only if the disparity is so dramatic that children in the poorest of our school districts are deprived of a basic educational opportunity” (Richard, 2001). The dissenting opinion by Justice Alice Robie was critical of the courts intervention in dictating the amount of money earmarked for education. She was also critical of the political expedience in lieu of justice, and the perceived victory for the state is actually a defeat for the students and citizens of Ohio (Richard, 2001). The Coalition for Equity and Adequacy of School Funding believed the Legislature again only tinkered with the existing system with little changes in the issues that initially caused the system unconstitutional.

Texas, on the other hand, was considered a model for equalization in property tax through the process of tiers. The Texas Foundation School Program distributed state and local funds through system of formulas. The Foundation School Program consisted of three tiers. The first two tiers of the foundation plan included adjustments and weighting to distribute funding according to each school district’s characteristics and students. The third tier created in the 1999-2000 school year provided funding support for school facilities.

The first tier formed the base foundation level of funding for each student in the average daily attendance. Adjustments were included for small and mid-size district allotments, sparsity, special education, and a cost of education

index. The second tier provided funding for equalization to school districts beyond the base level funding provided in Tier 1. Tier 2 generated resources for education through a guaranteed yield program that equalized funding beyond the base funding level in Tier 1. The guaranteed yield for a dollar of sales tax was \$2499 per student. Districts with property wealth below the guarantee level received a combination of state and local revenue with the state making up the difference to the \$2,499 level. If districts generated between \$2,499 and \$2,950 per student on the dollar of property tax, they received local taxes in Tier 2 only. If a district could produce more than \$2,950, they were subject to wealth reduction provisions by selecting several options of recapturing the wealth to be shared with districts below the \$2,499 threshold.

Tier 3 funds were used to construct or lease-purchase new instructional facilities. The Texas Legislature appropriated \$400 million for the 1999-2000 biennium. The state funds were equalized as in Tiers I and II. State assistance was based on the amount needed to service the debt and limited to the lesser of the actual annual debt service payment or \$250 per student. Starting in 1999, the Texas Legislature appropriated new funds to assist school districts to pay old debt (Texas School Finance Guide, 1999).

Texas suffered through two decades of court battles dealing with issues of equal access to resources for public education. The heavy reliance on local property tax along with great disparity in property values made the equal access to revenue extremely difficult. The tiers of equalization are unique to Texas and

took multiple years to accept the "Robin Hood Principal" as a method of equalization (Casey & Walker, 1996).

Litigation Continues for Long Term Issues

A group of Iowa schools created the "Coalition for Common Cents Solutions" to pursue a lawsuit in response to the Local Option Sales Tax Law. The coalition asked school boards across the state to support a lawsuit through resolutions and contributions for litigation costs. In June 2001 a meeting was held in Indianola, Iowa, to provide data for supporters and to elect a seven member representative board. The Wandro Law Firm from Des Moines, Iowa, was hired to research, plan, and prepare a lawsuit against the State of Iowa due to the inequities caused the Local Option Sales Tax Law passed in 1998. (See Appendix C.) The lawsuit was completed and ready for filing in September, 2001. The lawsuit contained language for dismissal if the Legislature passed legislation to expand the sales tax an additional cent statewide to be divided equally on a per-pupil basis across Iowa, along with providing significant property tax relief. The Coalition board members held the lawsuit and waited for a legislative solution from the 2002 Legislature. Members of the Coalition along with the Iowa Association of School Boards worked for a "grassroots" effort to convince legislators to move the statewide solution forward.

The concern for inequity and a possible long court battle remained with a promise of filing after the 2002 session if the sales tax issue was not addressed. The potential for legal action has stimulated discussion statewide and a grass

roots effort to bring about a solution. The state of the economy and budget difficulties in Iowa brought the statewide sales tax solution to the forefront during the 2002 Legislative Session. The statewide additional cent of sales tax would provide approximately \$687 per student in infrastructure revenue. The elements of HF660 provided for significant property tax relief for existing debt before new construction may take place. (See Appendix B.)

The delay in filing a suit in Iowa related directly to the long term issues that could possibly occur if the suit entered the courts. Many lobbyists have expressed concern that the filing of the suit would force Iowa to spend many years in court and likely find itself in a battle for the entire school funding system.

The State of Ohio appeared to be near the end of a decade of litigation. The most recent ruling in September 2001 ruled the school funding system to meet constitutional muster. The funding system remained in state of flux when the Supreme Court ordered mediation between all parties with a deadline for consensus in mid-February of 2002. The *DeRolph* case carried on in the Ohio courts through many decisions and appeals since 1991. The challenge to meet the "thorough and efficient" language of the Ohio Constitution provided many opportunities for dispute and multiple appeals.

Each school district was required by law to submit five-year finance plans to the Ohio State Department of Education. School district leaders were unable to make predictions beyond the current year and subsequent year. This meant all districts were non-compliant for this requirement. The uncertainty of future funding due to the unconstitutional ruling and continued appeals from both

parties made financial forecasting nearly impossible. Staffing decisions, facility additions, new construction, and long range planning became impossible with future funding in jeopardy.

The State of Texas made massive finance reforms to develop a program that met several constitutional challenges. The three-tiered finance system equalized funding throughout the state to provide similar revenue through similar tax effort. This unique system took nearly 15 years of litigation to develop. In 1965 Governor John Connally appointed a committee to develop a long range plan to bring Texas to the forefront as a national leader in education. The committee recommended sweeping changes in the funding program and called for increased state funds along with wide-spread consolidation of school districts. A federal district court ruled the Texas system of school finance unconstitutional in 1971 in the *Rodriguez vs. San Antonio* case. The United State Supreme Court reversed the decision on the basis that education was not a fundamental right protected by the Fourteenth Amendment. The foundation program was considered constitutional, but the Legislature was pressed to provide a more equitable system.

In 1975 the Texas Legislature developed a new structure with significant changes to the school finance system. The Legislature passed Senate Bill 350 in 1979 that expanded the Foundation School Program further by adjusting state equalization aid to a single formula. Then in 1984 the *Edgewood* case was filed claiming the Texas school finance was unconstitutional under equal protection and "efficient system" language. The filing caused the Texas Legislature to meet

in special session enacting House Bill 72 that addressed nearly all aspects of public education. To fund the increased state aid to education, the Legislature raised state taxes to generate \$4.9 billion in additional revenue for a three-year period. The state also increased the state general sales and use tax from 4% to 4.125% along with removing many exemptions. The *Edgewood* suit was refiled in 1985 challenging the school finance in place due to House File 72. The state followed by making the sales and use tax increases permanent and raised the sales tax to 6%. Additional revisions and additional funding were applied to the existing school finance system with little change in the overall structure. The creation of County Education Districts (CEDs) used to redistribute funding for the foundation program and increase the guarantee to the second tier school districts.

In 1991 the Texas Supreme Court in *Edgewood II* stated that the new system remained unconstitutional and still relied too heavily on local property tax and did not restructure the system. The CED tax was found unconstitutional in 1992. Finally in 1994 District Judge Scott McCown upheld the constitutionality of Senate Bill 7 that contained the language for wealth-reduction and the three tiered system in place today. The Texas Supreme Court upheld Senate Bill 7 but noted school facility funding needed attention. In the 1995 Texas Legislature, Senate Bill 1 completed the reform to school finance in Texas by adding \$170 million in a school facility grant program. Texas has continued to meet constitutional muster after 24 years of litigation, appeals, and school finance reform.

The three states of Iowa, Ohio and Texas present a continuum of litigation from the beginnings of litigation in Iowa to continuing legal issues in Ohio to completed school finance reform in Texas which has survived multiple legal challenges in recent years.

Litigation Costs for State Taxpayers

A coalition of Iowa schools districts elected a board of directors and contributed money for preparation of a lawsuit to challenge the local option sales law. The Coalition for Common Cents Solutions asked local school boards to provide what they could afford with a limit of \$1 per student as a maximum. If districts were unable to contribute monetarily, they were asked to provide statements of support. The initial meeting for the group was held on June 14, 2001, and by October 1, 2001, over 170 districts had committed \$70,000 for the suit preparation. The coalition worked to get a legislative solution in place to change the county-based system to an additional cent of sales tax for school infrastructure. The threat of litigation worked to stimulate discussion for a statewide solution. The funding for a possible lawsuit came from local property tax and the defense by the state came from the state treasury. The litigation costs and court costs on both sides of the issue were going to be a taxpayer expense if the suit was filed.

If Iowa begins the process of litigation, the issue of tax-supported lawsuits in the public arena will surely surface. School districts may not file suit against the state and therefore produced concerned parent and student representatives

as plaintiffs in a class action suit. Several legislators expressed concern about local school districts providing funding for a lawsuit and have stated they will appeal to the Attorney General. The beginning stages of litigation in Iowa incurred minimal expense and were limited to \$17,000 for the plaintiffs. The goal of the coalition was to force legislative action to enact a statewide sales and service tax to fund school infrastructure.

The litigation costs for the initial *DeRolph* case in Ohio won by the plaintiffs was awarded by the court to the law firm that represented the plaintiffs. The firm of Bricker & Eckler requested payment of \$3.5 million for attorney fees from the court but was awarded \$888,721. Judge Lewis decided the issue of fees and admonished the firm's request as excessive. The amounts for the *DeRolph II* and *DeRolph III* cases were not readily available but were assessed to the state as the funding system continued to remain unconstitutional. The state also incurred its own attorney fees in defense adding to the taxpayers' total burden.

Texas followed a similar path in its journey to constitutionality. The attorneys for the plaintiffs in the *Rodriguez* case received attorney fees through state government resources. Tax dollars provided the revenue for the plaintiffs and the state to determine the adequacy of school funding in Texas.

Public perception and opinion about the suits financed exclusively by the each state's taxpayers became a major issue as the litigation continued over several years. Iowa districts requested opinions from their school district attorneys prior to contributing to the coalition for school equity to be sure of the

legality in providing funds for a lawsuit against the state on behalf of parents and students in representative districts.

Litigation Leads to Entire Funding System Review

The initial legal issues in Iowa hinged around the county-based system of local option sales tax. The Coalition for Common Cents Solutions objected to the local option sales tax and used this single issue as they prepared a lawsuit against the State of Iowa. The per pupil amount generated by the county-based sales tax that varied in a 1:10 ratio in combination with property tax assessed valuations in a 1:6 ratio, caused severe inequities in districts with low wealth and limited retail sales. The political solution for the Coalition for Commons Cents Solution group was to make the sales tax statewide and equalized on a per pupil basis with all revenue directed toward property tax relief and school infrastructure (Appendix E). If the Legislature failed to act, the filing of the suit would move forward. The entire funding system would be at risk to provide equity throughout Iowa. The foundation plan beyond the 87.5% level for the per pupil general fund, all funds driven by strictly property tax (PPEL (Physical Plant and Equipment Levy), PERL (Physical Education and Recreation Levy), Management Levy, Cash Reserve Levy, Debt Service Levy, and the Instructional Support Levy would all be analyzed in the courts. On-time funding for growing districts and the budget guarantee for districts losing enrollment would also be part of the discussion for equity. A genuine concern emerged as the lawsuit threat became real. Legislators, taxpayer groups, lobbyists, and Department of

Education leaders voiced their opinion that the lawsuit would lead to a comprehensive review of the current funding system. The very real possibility that a long battle could develop, as in other states, caused these groups to pursue the Coalition and ask for delay in filing of the suit. The uncertainty and potential for long term court battles were the main topic of conversation in the educational community. At the time of this writing, the lawsuit prepared for the Coalition for Common Cents Solutions was complete and ready for filing. The acting board of directors delayed the filing until the Legislature was in session.

The Ohio Coalition for Equity and Adequacy of School Funding filed a lawsuit in December of 1991 charging the Ohio School Finance System was unconstitutional because of the funding inequities created among Ohio's 611 school districts. Facility and classroom deficiencies led a group of five school districts, together with students, parents, teachers, and administrators, to bring the suit in the Common Pleas Court of Perry County, Ohio. The suit, *DeRolph v. State of Ohio*, resulted in 10 years of legislative adjustments, court decisions, and appeals over the entire school funding system.

Few aspects of the Ohio funding program escaped scrutiny. The "formula amount" was found to have no relation to the actual costs to educate one pupil. The "cost-of-doing-business factor" and applicable "charge-offs" were at issue due to significant differences in wealth within counties and from county to county. No adjustments were made for wealth on any special factors, additional appropriations, categorical programs, vocational programming, special education, or transportation. Wealthier districts were able to make up the

difference through local taxes when flat amounts were distributed on a per pupil basis. The state funding system also mandated districts unable to meet their budgets to borrow through "spending reserve" funds. The loans were repaid by diverting funds that otherwise would be available to the district under the school foundation program. Over the 10 year period, multiple adjustments to the school finance plan met challenges in court and continued unconstitutional until September 2001.

Texas began its look at school funding through the foundation formula and the ability to fund school infrastructure. With the question of efficiency and equity as the standard for constitutionality, the court looked into all facets of Texas school finance. The end result became a three-tiered system of funding to provided similar tax receipts from similar tax effort. All individual categorical funds for maintenance, technology, capital improvement, and new construction were fully equalized as was the foundation program through the three tiers. As Texas worked its way through the litigation process, the heavy reliance of local property tax drove the legislature to make sweeping reform. The multiple years of litigation were caused by minimal changes in the existing funding program with only additional funding applied to the same concepts. The funding adjustments and corrections served only to continue creating inequity in other areas of the school finance system. The reforms currently in place have survived the scrutiny of the courts since 1995.

Construction of School Facilities

The Local Option Sales Tax Law in Iowa provided school districts in 23 counties a significant revenue source specifically earmarked for school infrastructure. The State of Iowa did not provide funding for school facilities until the 2000 Legislature enacted the Vision Iowa program. The Vision Iowa funds were accessible through a competitive grant process. School districts with the least capacity to generate facility funding were ranked and given priority through increased point assignment. The Vision Iowa program provided \$50 million over a three year time period for one-time grants of no more than \$1 million for each grant recipient. Each district provided matching funds on a sliding scale determined by the capacity ranking. Districts with local option sales tax above the per pupil average, if collected statewide, were not eligible for the Vision Iowa dollars. This first \$10 million of the program was awarded to nine school districts in May 2001. The matching funds from each district came from local funds through a voter-approved bond issue or Physical Plant and Equipment Levy funds. Each of these revenue streams was collected through property tax at the local level with no equalization from state funds. The districts that received the priority for the grants were the same districts that had the least capacity to generate the necessary matching funds.

In September 1990 the Texas Supreme Court concluded the school finance system made no provisions for substantially equal access to revenues for facilities costs. The issue of equal access to similar revenue per pupil at

similar tax effort became the impetus for the tiered system currently in place in Texas. The guaranteed yield program of assistance for funding school facilities equalized the revenue for school districts entering construction phases. A school facilities grant program was also initiated in 1996 to add \$170 million to the guaranteed yield program. The combination of the two sources gave districts options and "equal access" to facility funding in the eyes of the court. Texas established that construction of school facilities should be treated in the same way as current operating expenditures.

Ohio remained an unconstitutional system as of June 1, 2001, as the Supreme Court waited for a revised school finance program. In 1999 Judge Lewis determined the state's effort as "woefully inadequate" and ordered education officials and the State Board to develop a new finance system. Due to the issues of forced borrowing and the heavy reliance on property tax for facility funding, the Governor and Legislature appropriated a plan to provide \$10.2 billion in state funds to build, remodel, and equip schools in Ohio over a 12 year period. In September 2000 the Legislature approved the majority of the \$10 billion of the tobacco settlement to school facilities. The Ohio Supreme Court determined the system still relied to heavily on property tax but did acknowledge the facilities plan as on the right track. The court ordered the Legislature to enact further reform and report the progress by June 15, 2001.

The issues for school infrastructure in Iowa centered around the Local Option Sales Tax Law. The 23 counties that received sales tax revenue represented over 55% of the students in Iowa and produced nearly 58% of all

retail sales in Iowa. The per pupil amount differed by a ratio of 10:1 if all counties passed the sales tax. The counties with little ability to create sales tax revenue did not attempt to pass the additional penny and had no revenue while the largest retail centers received nearly \$1,000 per student for school infrastructure. The combination of limited sales tax revenue and low property wealth in many districts that ring retail centers multiplied the disparity in ability to fund school construction. The lawsuit, if filed, would be entered under the guise of school construction issues. (See Appendix C.)

Issues for Iowa's Current Funding

If the Coalition for Common Cents Solutions moved to file a lawsuit in objection to the Local Option Sales Tax, the entire school funding program would likely come under full review. The Coalition argued the inequity of sales tax to begin the litigation conversation and the ten fold difference in per pupil allocation based on county retail sales. School districts with limited property taxing capacity and in counties where retail sales are insignificant see the inequity compounded even further. The counties in Iowa that are contiguous to the retail centers were among the highest in retail leakage and most often among the lowest in assessed valuation per student.

The school finance system was equalized for many years through a foundation program and in 1999 was raised to 87.5% of the per pupil amount set by the state legislature. The Uniform Levy of \$5.40 per \$1,000 of taxable valuation applied by all school districts in Iowa provided the local revenue for the

foundation amount up to 87.5%. The balance of the per student amount came from state aid to reach the 87.5% level. The remaining 12.5% of the per pupil amount was made up by levying additional property tax at the local level. The difference across Iowa in property tax values varied in a ratio of 6:1. The low-wealth districts were forced to add additional property tax to reach the per pupil foundation amount while the property-rich districts were able to raise the additional revenue with little tax effort.

The remainder of the school finance system in Iowa had no mechanism for equalization. Districts who needed to build new facilities, remodel existing facilities, purchase equipment, and maintain buildings and grounds were limited to two levies. The Physical Plant and Equipment Levy used primarily for maintenance, equipment purchase, and smaller building projects was limited to \$1.67 per \$1,000 of taxable valuation. All but 33 cents of that amount was subject to taxpayer approval by a simple majority. The first 33 cents of property tax was allowed with board approval. The revenue from the PPEL was limited by the districts property valuation and again could vary by a margin of 6:1. Major construction projects were funded through the debt service levy. Debt service was limited to \$2.70 per \$1,000 of taxable valuation unless a majority of voters approved moving to the maximum allowed by law at \$4.05 per \$1,000. Any tax levied in this fund required a bond referendum with a super majority of 60% of the voters for successful passage. These two funds were strictly property tax revenue from local sources only with no state funding to equalize capacity across the state.

Two other major levies dependent on local property tax with no state support are the Management Fund and the Cash Reserve Levy. The Management Levy funded three primary line items in district legal fees, all district insurance premiums other than health and life insurance, and employee retirement packages. The Cash Reserve Levy created revenue for district use for future enrollment growth and special projects with approval from the state's School Budget Review Committee. However, just as the PPEL and Debt Service levies, the revenue in these two funds was generated from property tax at local level alone. The relative property wealth of the school district determined the revenue potential from all of these levies. The four major pure property tax levies varied across the state in the same ratio as the property values in Iowa. The 6:1 ratio meant a high wealth district could generate six times more revenue per pupil on each dollar of property tax. This disparity and the district levy to meet the state determined per pupil amount would surely be a point of reference in the funding system entered the courts. As was referenced in the courts in Ohio and Texas, the heavy reliance on property tax to fund schools became the issue that the courts used in determining constitutionality.

Districts with significant property wealth on a per pupil basis can also spend considerably more per pupil on the expenditure side. (See Appendix F.) The districts with smaller enrollments and high value are among the highest in per pupil expenditures.

Long Range Planning Issues

The State Department of Education in Ohio required five-year fiscal plans and facility plans. The school districts in Ohio were in a state of flux with multiple years of litigation over the school finance system. The many versions and revisions of the school finance system over a period of 10 years made the requirement difficult, if not impossible. The absence of fiscal plans for facilities, staff, and program left school districts with questionable ability to bond for infrastructure or in to negotiate multiple year contracts. The inability to predict revenue for more than the current year kept the majority of districts operating at a status quo. The unconstitutional funding system forced many districts into borrowing through local banks at much higher rates than rates available through governmental bonds.

Texas was confronted with significant changes in it's school finance program in every year from 1977 to 1995. As Texas moved to the tiered system of financing, schools with significant tax base were faced with "wealth reduction" options, while districts in the lowest tier readied for additional revenue due to their limited taxing capacity. The years leading up to the equalization plan provided assorted remedies that included additional state funding but did not meet constitutional muster. The ability to develop fiscal plans was seriously impaired by the uncertainty thus hindering any long range planning for individual districts.

Iowa required schools to file a Comprehensive School Improvement Plan to the Department of Education each school year. Districts receive a site visit once every five years and were then required to develop a five-year plan. School facility funding and school finance were components of the five-year plan. The possibility of a lawsuit against the state and the potential ramifications shown true in other states caused considerable consternation among school leaders in Iowa.

Conclusions

The 2002 Legislature in Iowa has faced increased pressure from a well organized lobby effort including the Iowa Association of School Boards and the Farm Bureau. These and a coalition of local districts have joined in the support of legal action. Several issues in Ohio and Texas that led to the ruling that their school finance laws were unconstitutional were found or were found predictable in Iowa, leading to the conclusion that developments that occurred as a result of litigation in those states would likely develop if Iowa entered the courts on the issue of school finance.

1. County-based revenue was a key issue in both states.

The county-based revenue streams or credits in Ohio and Texas were key issues in the courts. The property value variance between counties and within counties became one of the critical points leading to unconstitutionality in both

states. The lawsuit prepared by the Wandro Law Firm (See Appendix C) was based on the inequities created by the Local Option Sales Tax Law.

2. Ohio and Iowa are very similar in their funding mechanisms.

The ratio of property tax wealth in Iowa (6:1) and sales tax revenue by county (10:1) compare with Ohio (8:1) where the courts determined the issue of unconstitutionality was due to a heavy reliance of property tax. Ohio and Iowa operate under a foundation program with equalization just below 90% of the per pupil cost set by the Legislature each year. The capacity for locally driven property tax levies for operation, maintenance, and debt service for infrastructure were in a direct relation to district property wealth.

3. The lawsuits in Texas and Ohio started focused but eventually encompassed the total funding of public education.

The lawsuits in both states began with concerns for school facility funding, but once in the courts the entire funding system came under review. The correlation between foundation programs, categorical funds, and school infrastructure funding caused all facets of school funding to be analyzed. Equalization efforts have been minimal in Iowa for facility funding and have only recently seen an adjustment in the foundation plan to address equalization.

4. The interminable court cases proved very costly to taxpayers and detrimental to district planning efforts.

Litigation continued in both Ohio and Texas for 10 years beyond the initial filing date. Taxpayers become the funding stream for the costs associated with a coalition of districts suing the state. The ability to make long range plans became impossible due to the uncertainty of school funding even in the short term or into the coming school year.

5. Constitutional language is not the same but it may lead to similar results.

The constitutions in Ohio and Texas rely on specific language where Iowa's language is more vague. Iowa will likely need a comparison to another state, or an argument consistent with its own practices to make the argument rock solid. Texas was able to present evidence of how fiscal inequities produced inadequate educational opportunities and thus violated the efficiency clause in their constitution. Ohio litigants were able to show the same heavy reliance on property tax provided inequities due to the students' place of residence and thus violated the "thorough and efficient" clause in the Ohio Constitution. Iowa has likely been untested in the courts for decades because the principle of equity of funding through the foundation plan offset the property values. A student's place of residence did not disadvantage the child until the onset of local option sales tax in combination with bonding capacity in low wealth districts entered the school finance system in Iowa.

6. Iowa's funding system is in jeopardy for unconstitutionality. After analyzing and studying school finance systems Texas and Ohio, Iowa is in jeopardy for constitutionality. Ohio continued to only tweak the system in place by adding

additional revenue without significantly changing distribution to local districts. Ohio remained unconstitutional after a decade of litigation and an unsuccessful attempt at mediation in the spring of 2002. Texas, on the other hand took court rulings seriously and made significant reform through equalization efforts throughout the funding program. The Texas finance plan has survived multiple challenges and serves as a model for equalization in school finance. Iowa has made minimal attempts to address the inequities caused by the local option sales tax and variances in property tax capacities. The Vision Iowa program added \$50 million over three years for school infrastructure for the entire state while some counties with the additional cent of sales tax could generate nearly that amount in a single year. Iowa must begin to take the inequities in the school finance system seriously to avoid court intervention.

Implications and Recommendations

Statewide Solution

The Iowa Association of School Boards initiated the research for House File 660 and presented the bill to supportive legislators in the 2001 legislative session. (See Appendix E.) The bill would have eliminated the county based system of local option sales tax and added an additional penny of state sales tax specifically designated for school infrastructure. The statewide sales and use tax would generate \$687 per student while providing property tax relief over the next 20 years. Counties in Iowa that were able to generate more revenue within their

county were allowed to complete their 10-year local option sales tax referendum at their expected rate and join the statewide equalized effort for the remainder of the twenty years.

The bill did not make it to the House floor for debate or as an amendment to other legislation. The bill stalled in the Ways and Means Committee and was essentially blocked from debate in the House of Representatives. An attempt to add the bill as an amendment to other legislation died due to the lack of ability to find it germane to the bill on the floor.

The statewide solution of an additional cent of sales tax with required property tax relief, community-approved infrastructure plan, and debt reduction plan was sound policy that would begin to level the playing field for all districts in Iowa. Once all counties are included in the fully equalized sales tax for infrastructure on a per pupil basis, the two levies of Debt Service and Physical Plant and Equipment Levy are reduced to zero with the revenue generated. The property values in each district have no bearing on the two levies once all existing debt is retired. The 20 year sunset will leave some districts with remaining debt, but no new debt will be incurred as districts "pay as you go" on new facilities.

Equalization Efforts

The Debt Service Levy, Physical Plant and Equipment Levy (PPEL), Cash Reserve Levy, Management Levy, and additional levy to receive 100% of the Foundation Plan are all pure property tax levies. The school districts in Iowa

continue to have a 6:1 ratio in property tax capacity. Low property value districts must tax their constituents at a significantly higher rate to receive similar revenue. The statewide sales tax bill requires for debt service reduction down to the \$2.70 per \$1,000 of taxable valuation each year if the district has a debt service levy greater than that amount. Once a district reaches the \$2.70 level they must use the sales tax revenue to reduce the debt service levy to zero. If a district has retired all debt in the Debt Service Fund, the district must use the sales tax revenue to replace the Physical Plant and Equipment Levy. The retiring of existing debt without incurring additional debt provides some level of equity.

The pure property tax levies remaining are then the Cash Reserve Levy, the Management Levy, and the additional levy. The State of Iowa needs to consider moving forward with additional equalization efforts as state revenues improve. Working toward equalizing the additional levy for the Foundation Program equates to about \$25 million of property tax relief for each one% increase. Working to equalize Cash Reserve and Management Levies would take an enormous amount of money to provide similar revenue from similar property tax rates. The level of equity reached prior to the remaining two pure property taxes would likely be as close to the efforts of equalization in Texas.

Regional High Schools

Nearly half of Iowa's school districts educate less than 600 students in grades K-12. The Legislature has expressed concern for sales tax revenue to

artificially “prop up” these small districts when they should be considering reorganization. The limited revenue distributed on a per pupil basis is not nearly enough to build new facilities for the small district. Several districts could enter into a 28E agreement to share revenues for a common facility. The regional high school concept has been explored by the Department of Education along with providing grants specifically designed for regional planning. The current structure to reorganize two districts is a cumbersome issue needing 60% approval in both districts and includes consolidation of debt and property values. The regional high school 28E sharing agreement allows districts share sales tax revenue to build a joint facility for high school students while maintaining K-8 students in their individual communities.

Sales Tax Clearinghouse

The reliance on sales tax as the primary source of funding for school infrastructure becomes an issue as the revenues erode in Iowa due to increased sales via the Internet. A coalition of the states is necessary to tighten the sales tax collection for sales made on-line. A clearinghouse that could determine the point of sale; determine the tax rate at the point of sale; and define the terms of food, beverage, clothing, service, and exemptions could collect and distribute the revenue back out to the states. This would also give each state one point of collection and dissemination for audit purposes. Estimates are only possible at this time; however, some experts are indicating as much as \$100 million is lost each year in sales tax revenue. Additional legislative intervention has eroded

sales tax revenue by removing utility bills from local option taxes and creating sales tax holidays.

Summary of Implications and Recommendations

An impending lawsuit provides many challenges for the Iowa Legislature in the coming years. Working toward an equalized system will take a significant commitment of revenue and a comprehensive review of the current funding system. Nevertheless, if Iowa hopes to maintain its long and distinguished record of fair opportunity for every child, changes will need to be made. The following steps are recommended:

1. Enact the statewide sales tax.

A statewide solution for sales tax earmarked for school infrastructure and property tax relief would be the first major step to equalization. (See Appendix E) All districts would receive the same amount per pupil to reduce existing debt and use the remaining revenue for infrastructure needs. Over time the equalized pool of all counties will remove the reliance on property tax values for Physical Plant and Equipment Levies and Debt Service Levies. The infusion of money into the state in school construction projects would also provide an economic stimulus for the state.

2. Equalize the foundation plan.

The second step to be addressed would be to increase the equalization effort in the Foundation Plan to 100% from the current 87.5%. Each 1% of

additional state aid would amount to nearly \$20 million with current state property values. The equalization of the Foundation Program through the formation of tiers in Texas has passed constitutional muster since 1997 and appears to be a model for the nation.

3. Equalize remaining local property tax levies.

The third step for the school finance system in Iowa would be to begin to equalize the remaining pure property tax levies of Cash Reserve and Management. The Instructional Support Program should also be fully funded by the state as provided by law with equalization for the local portion.

4. Revenue sharing among districts.

Issues of school district size have been a part of the debate for a statewide sales tax. Very small rural districts will receive the same per pupil amount as urban districts. The perception exists that the sales tax revenue will artificially prop up the tiny district and allow them to remain open. A possible solution for sharing revenue between districts is to create a regional high school concept. The sharing districts could maintain a K-8 program in their respective small towns with students from several communities joining together for a single high school.

5. Close the online sales tax loophole.

A final recommendation relies heavily on federal intervention or possible regional collection of sales tax for on-line sales on the Internet. Sales tax is

eroding in all states due to the increase in Internet sales over the past several years. A regional clearinghouse or national clearinghouse for sales tax collection and disbursement would begin to return sales tax to a more reliable revenue stream.

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APPENDIX A

Vision Iowa School Infrastructure Grants
Capacity Per Pupil

FOR USE WITH THE VISION IOWA SCHOOL INFRASTRUCTURE GRANTS
CAPACITY PER PUPIL
PERCENT OF LOCAL MATCH REQUIRED
ESTIMATED LOCAL OPTION TAX REVENUES
ESTIMATED LOCAL OPTION TAX REVENUES PER PUPIL

NAME	PROPERTY TAX CAPACITY	BUDGET ENROLLMENT	PROPERTY TAX CAPACITY PER PUPIL	ESTIMATED LOCAL OPTION TAX CAPACITY	OPTION TAX CAPACITY PER PUPIL	TOTAL CAPACITY PER PUPIL	PERCENT OF REQUIRED LOCAL MATCH	ESTIMATED LOCAL OPTION TAX REVENUES	LOCAL OPTION TAX PER PUPIL
ADAIR-CASEY	531,603.64	383.5	1,386	125,119.29	326	1,712	50%	0	0
ADEL-DESOTO-MINBURN	1,421,148.33	1,436.5	989	471,783.36	328	1,318	42%	0	0
AGWSR	1,508,663.25	959.0	1,573	354,608.25	370	1,943	50%	0	0
A-H-S-T	1,006,750.20	718.0	1,402	369,485.13	515	1,917	50%	81,880.92	114
AKRON WESTFIELD	677,112.07	615.8	1,100	197,607.58	321	1,420	45%	0	0
ALBERT CITY-TRUESDALE	581,191.37	299.5	1,941	136,192.22	455	2,395	50%	0	0
ALBIA	1,087,728.21	1,322.9	822	345,486.96	261	1,083	34%	0	0
ALBURNETT	643,804.43	632.2	1,018	528,599.90	836	1,854	50%	0	0
ALDEN	568,362.24	355.0	1,601	154,607.69	436	2,037	50%	0	0
ALGONA	2,270,562.88	1,454.6	1,561	711,787.63	489	2,050	50%	0	0
ALLAMAKEE	1,839,841.47	1,535.1	1,199	581,171.92	379	1,577	50%	16,502.01	11
ALLISON-BRISTOW	476,244.52	376.2	1,266	86,135.14	229	1,495	47%	0	0
ALTA	729,948.57	637.0	1,146	293,826.09	461	1,607	50%	0	0
AMES	8,516,979.25	4,751.6	1,792	3,781,836.47	796	2,588	50%	0	0
ANAMOSA	1,219,401.31	1,376.7	886	475,624.53	345	1,231	39%	0	0
ANDREW	363,880.97	360.0	1,011	128,025.57	356	1,366	43%	0	0
ANITA	416,967.41	346.6	1,203	146,700.27	423	1,626	50%	0	0
ANKENY	6,523,596.19	5,828.4	1,119	5,338,373.01	916	2,035	50%	5,338,373.01	916
ANTHONY-OTO	453,817.83	324.8	1,397	197,956.70	609	2,007	50%	197,956.70	609
APLINGTON	499,403.19	375.0	1,332	86,759.15	231	1,563	49%	0	0
ARMSTRONG-RINGSTED	900,339.98	409.0	2,201	151,102.05	369	2,571	50%	136,005.84	333
AR-WE-VA	678,206.11	451.4	1,502	201,282.65	446	1,948	50%	0	0
ATLANTIC	1,609,822.01	1,623.3	992	686,042.55	423	1,414	45%	0	0
AUDUBON	1,008,661.51	773.1	1,305	142,135.52	184	1,489	47%	0	0
AURELIA	662,609.67	366.8	1,806	134,636.83	367	2,174	50%	0	0
BALLARD	1,204,558.56	1,251.9	962	982,566.61	785	1,747	50%	8,792.87	7
BATTLE CREEK-IDA GROVE	1,047,700.79	848.2	1,235	249,384.64	294	1,529	48%	5,485.25	6
BAXTER	387,775.20	341.4	1,136	130,187.61	381	1,517	48%	0	0
BCLUW	1,107,278.29	695.3	1,593	243,960.63	351	1,943	50%	0	0
BEDFORD	537,991.69	604.6	890	109,291.27	181	1,071	34%	0	0
BELLE PLAINE	625,071.02	798.2	783	202,581.76	254	1,037	33%	0	0
BELLEVUE	784,139.31	697.7	1,124	248,120.67	356	1,480	47%	0	0
BELMOND-KLEMME	1,195,858.85	908.3	1,317	264,861.66	292	1,608	50%	0	0

BENNETT	450,653.94	270.0	1,669	109,958.04	407	2,076	50%	68,202.05	253
BENTON	2,280,675.32	1,789.1	1,275	452,830.39	253	1,528	48%	0	0
BETTENDORF	5,032,789.53	4,243.6	1,186	3,326,692.30	784	1,970	50%	3,326,692.30	784
BONDURANT-FARRAR	813,358.95	890.1	914	814,727.62	915	1,829	50%	814,348.27	915
BOONE	1,952,865.44	2,397.5	815	851,683.33	355	1,170	37%	0	0
BOYDEN-HULL	878,091.03	573.9	1,530	310,014.31	540	2,070	50%	0	0
BOYER VALLEY	662,124.75	581.0	1,140	169,105.20	291	1,431	45%	8,272.64	14
BROOKLYN-GUERNSEY-MALCOM	837,962.27	677.6	1,237	279,440.13	412	1,649	50%	0	0
BURLINGTON	4,337,374.17	5,093.9	851	3,851,034.39	756	1,607	50%	3,851,034.39	756
C AND M	396,354.08	246.8	1,606	104,779.97	425	2,031	50%	0	0
CAL	582,823.29	305.6	1,907	105,952.18	347	2,254	50%	0	0
CALAMUS-WHEATLAND	685,332.41	553.0	1,239	252,772.53	457	1,696	50%	252,772.53	457
CAMANCHE	1,283,154.23	920.0	1,395	391,291.84	425	1,820	50%	391,291.84	425
CARDINAL	563,824.37	698.5	807	352,876.15	505	1,312	41%	0	0
CARLISLE	913,258.01	1,299.3	703	500,857.07	385	1,088	34%	240,888.08	185
CARROLL	3,291,966.04	1,899.4	1,733	1,349,168.67	710	2,443	50%	0	0
CEDAR FALLS	5,104,143.68	4,300.0	1,187	3,401,923.79	791	1,978	50%	3,401,923.79	791
CEDAR RAPIDS	21,790,448.78	18,114.3	1,203	15,145,867.02	836	2,039	50%	0	0
CENTER POINT-URBANA	836,320.50	1,050.2	796	657,451.85	626	1,422	45%	0	0
CENTERVILLE	1,130,433.42	1,700.0	665	583,030.63	343	1,008	32%	0	0
CENTRAL	715,473.62	658.9	1,086	232,371.55	353	1,439	45%	0	0
CENTRAL CITY	485,792.08	535.9	907	448,080.81	836	1,743	50%	0	0
CENTRAL CLINTON	1,807,035.48	1,684.4	1,073	716,404.32	425	1,498	47%	716,404.32	425
CENTRAL DECATUR	598,813.04	735.0	815	168,186.62	229	1,044	33%	0	0
CENTRAL LEE	1,106,827.46	1,071.9	1,033	578,289.57	540	1,572	50%	578,289.57	540
CENTRAL LYON	944,119.36	723.2	1,305	230,846.33	319	1,625	50%	0	0
CHARITON	1,105,576.20	1,363.7	811	387,056.93	284	1,095	34%	0	0
CHARLES CITY	2,085,558.11	1,792.8	1,163	762,455.56	425	1,589	50%	0	0
CHARTER OAK-UTE	488,409.49	309.6	1,578	113,408.93	366	1,944	50%	37,674.44	122
CHEROKEE	1,163,047.16	1,197.8	971	439,039.64	367	1,338	42%	0	0
CLARINDA COMMUNITY	1,084,814.74	1,045.0	1,038	334,472.06	320	1,358	43%	334,472.06	320
CLARION-GOLDFIELD	1,629,409.58	964.1	1,690	277,784.01	288	1,978	50%	0	0
CLARKE	1,440,888.50	1,475.2	977	487,247.63	330	1,307	41%	0	0
CLARKSVILLE	371,759.68	424.1	877	97,102.38	229	1,106	35%	0	0
CLAY CENTRAL-EVERLY	949,560.54	541.1	1,755	362,695.92	670	2,425	50%	5,804.62	11
CLEAR CREEK-AMANA	2,183,068.00	1,187.3	1,839	1,010,095.32	851	2,689	50%	0	0
CLEAR LAKE	2,134,182.08	1,519.1	1,405	1,264,356.46	832	2,237	50%	0	0
CLEARFIELD	170,924.38	114.0	1,499	21,922.02	192	1,692	50%	0	0
CLINTON	3,651,560.02	4,677.4	781	1,989,378.75	425	1,206	38%	1,989,378.75	425
COLFAX-MINGO	795,630.74	959.5	829	363,987.81	379	1,209	38%	0	0
COLLEGE	6,165,806.01	3,114.5	1,980	2,507,746.19	805	2,785	50%	0	0
COLLINS-MAXWELL	658,027.99	564.3	1,166	443,751.87	786	1,952	50%	46,712.14	83
COLO-NESCO	982,463.59	626.6	1,568	492,606.41	786	2,354	50%	0	0

COLUMBUS	990,994.63	1,107.6	895	171,060.07	154	1,049	33%	75,047.70	68
COON RAPIDS-BAYARD	790,102.52	571.1	1,383	302,932.64	530	1,914	50%	0	0
CORNING	728,056.96	642.5	1,133	162,818.71	253	1,387	44%	0	0
CORWITH-WESLEY	482,787.43	210.1	2,298	80,700.52	384	2,682	50%	0	0
COUNCIL BLUFFS	8,319,979.53	9,984.1	833	6,030,062.42	604	1,437	45%	0	0
CRESTON	1,548,981.95	1,512.5	1,024	824,774.67	545	1,569	49%	0	0
DALLAS CENTER-GRIMES	1,662,463.17	1,504.0	1,105	1,085,292.46	722	1,827	50%	921,969.37	613
DANVILLE	494,843.10	472.5	1,047	352,122.08	745	1,793	50%	345,118.12	730
DAVENPORT	16,784,563.31	17,376.9	966	13,592,750.15	782	1,748	50%	13,592,750.15	782
DAVIS COUNTY	1,237,374.05	1,282.8	965	377,029.69	294	1,259	40%	0	0
DECORAH	1,881,740.37	1,581.8	1,190	790,996.25	500	1,690	50%	790,996.25	500
DEEP RIVER-MILLERSBURG	296,378.97	215.2	1,377	115,944.62	539	1,916	50%	0	0
DELWOOD	377,860.15	293.0	1,290	124,617.94	425	1,715	50%	124,617.94	425
DENISON	1,331,830.52	1,654.0	805	597,637.62	361	1,167	37%	0	0
DENVER	713,435.23	751.2	950	330,186.89	440	1,389	44%	101,266.57	135
DES MOINES INDEPENDENT	29,349,052.69	32,345.0	907	29,411,420.65	909	1,817	50%	29,330,642.87	907
DIAGONAL	155,804.33	119.0	1,309	25,909.05	218	1,527	48%	0	0
DIKE-NEW HARTFORD	890,775.12	825.4	1,079	214,837.49	260	1,339	42%	8,702.60	11
DOWS	434,207.33	173.0	2,510	52,583.08	304	2,814	50%	0	0
DUBUQUE	11,441,347.54	9,696.7	1,180	8,493,911.59	876	2,056	50%	0	0
DUNKERTON	536,941.65	501.4	1,071	396,680.14	791	1,862	50%	396,680.14	791
DURANT	908,267.86	625.4	1,452	226,892.94	363	1,815	50%	133,980.16	214
EAGLE GROVE	1,174,092.41	974.7	1,205	307,325.99	315	1,520	48%	18,205.38	19
EARLHAM	576,344.63	527.4	1,093	177,275.26	336	1,429	45%	0	0
EAST BUCHANAN	769,950.00	628.8	1,224	182,210.82	290	1,514	48%	0	0
EAST CENTRAL	515,465.58	457.8	1,126	171,294.17	374	1,500	47%	51,803.64	113
EAST GREENE	635,329.02	478.6	1,327	150,955.30	315	1,643	50%	0	0
EAST MARSHALL	895,214.41	857.4	1,044	397,574.64	464	1,508	47%	0	0
EAST MONONA	311,641.15	178.7	1,744	67,324.22	377	2,121	50%	67,324.22	377
EAST UNION	583,773.16	580.3	1,006	314,915.12	543	1,549	49%	0	0
EASTERN ALLAMAKEE	913,674.38	515.0	1,774	193,598.96	376	2,150	50%	0	0
EDDYVILLE-BLAKESBURG	1,890,139.92	833.4	2,268	394,748.91	474	2,742	50%	0	0
EDGEWOOD-COLESBURG	617,070.80	588.0	1,049	201,095.82	342	1,391	44%	0	0
ELDORA-NEW PROVIDENCE	887,893.33	703.3	1,262	309,551.95	440	1,703	50%	0	0
ELK HORN-KIMBALLTON	357,258.36	345.0	1,036	95,707.97	277	1,313	41%	69,495.57	201
EMMETSBURG	1,186,123.69	798.8	1,485	250,842.99	314	1,799	50%	0	0
ENGLISH VALLEYS	611,575.42	486.2	1,258	201,751.24	415	1,673	50%	0	0
ESSEX	347,335.00	286.4	1,213	91,718.75	320	1,533	48%	91,718.75	320
ESTHERVILLE LINCOLN	1,408,519.47	1,573.8	895	585,634.21	372	1,267	40%	585,634.21	372
EXIRA	454,431.61	362.0	1,255	67,050.16	185	1,441	45%	0	0
FAIRFIELD	2,919,135.77	2,077.9	1,405	1,051,680.32	506	1,911	50%	0	0
FARRAGUT	517,451.68	350.7	1,475	109,801.06	313	1,789	50%	109,801.06	313
FOREST CITY	1,171,601.53	1,420.6	825	471,596.09	332	1,157	36%	0	0

FORT DODGE	4,688,469.71	4,286.3	1,094	3,121,348.78	728	1,822	50%	1,560,674.39	364
FORT MADISON	2,641,378.17	2,658.6	994	1,440,592.29	542	1,535	48%	1,440,592.29	542
FOX VALLEY	246,964.92	206.0	1,199	39,434.73	191	1,390	44%	0	0
FREDERICKSBURG	480,905.05	380.0	1,266	147,696.10	389	1,654	50%	0	0
FREMONT	297,086.81	195.4	1,520	84,220.08	431	1,951	50%	0	0
FREMONT-MILLS	597,078.91	460.6	1,296	133,968.37	291	1,587	50%	122,293.39	266
GALVA-HOLSTEIN	850,339.43	562.6	1,511	166,959.94	297	1,808	50%	0	0
GARNAVILLO	471,380.94	250.8	1,880	88,448.60	353	2,232	50%	0	0
GARNER-HAYFIELD	849,803.77	849.4	1,000	256,629.83	302	1,303	41%	0	0
GEORGE	569,620.91	335.4	1,698	107,958.13	322	2,020	50%	0	0
GILBERT	964,260.55	885.2	1,089	691,317.66	781	1,870	50%	0	0
GILMORE CITY-BRADGATE	434,695.11	226.4	1,920	75,927.71	335	2,255	50%	3,641.08	16
GLADBROOK-REINBECK	1,244,681.07	857.5	1,452	245,750.03	287	1,738	50%	32,436.95	38
GLENWOOD	1,874,738.60	2,065.7	908	344,528.72	167	1,074	34%	0	0
GLIDDEN-RALSTON	600,124.39	415.2	1,445	290,571.56	700	2,145	50%	0	0
GMG	580,002.70	388.3	1,494	145,182.58	374	1,868	50%	0	0
GRAETTINGER	421,323.54	298.2	1,413	95,597.59	321	1,733	50%	14,830.42	50
GRAND	358,928.95	187.7	1,912	66,678.19	355	2,267	50%	0	0
GREENE	571,278.38	389.1	1,468	101,109.13	260	1,728	50%	0	0
GRINNELL-NEWBURG	2,264,197.24	1,854.6	1,221	756,669.07	408	1,629	50%	0	0
GRISWOLD	959,692.45	715.4	1,341	312,408.10	437	1,778	50%	56,774.06	79
GRUNDY CENTER	843,733.73	663.6	1,271	174,877.67	264	1,535	48%	0	0
GUTHRIE CENTER	671,527.09	511.3	1,313	147,654.49	289	1,602	50%	0	0
GUTTENBERG	733,529.68	529.6	1,385	186,771.85	353	1,738	50%	0	0
HAMBURG	494,156.23	329.4	1,500	103,132.22	313	1,813	50%	103,132.22	313
HAMPTON-DUMONT	1,564,243.97	1,239.2	1,262	405,088.31	327	1,589	50%	0	0
HARLAN	1,933,903.10	1,684.3	1,148	578,968.88	344	1,492	47%	578,086.17	343
HARMONY	452,329.68	554.6	816	134,858.66	243	1,059	33%	28,053.98	51
HARRIS-LAKE PARK	632,309.35	339.0	1,865	220,294.90	650	2,515	50%	195,698.45	577
HARTLEY-MELVIN-SANBORN	1,208,570.07	885.1	1,365	367,590.61	415	1,781	50%	829.23	1
HIGHLAND	709,250.01	649.7	1,092	243,795.25	375	1,467	46%	0	0
HINTON	796,961.09	606.4	1,314	194,591.16	321	1,635	50%	0	0
H-L-V	715,311.96	445.5	1,606	252,599.94	567	2,173	50%	0	0
HOWARD-WINNESHIEK	1,931,921.59	1,568.4	1,232	631,072.15	402	1,634	50%	113,713.84	73
HUBBARD-RADCLIFFE	1,029,310.14	557.1	1,848	241,536.35	434	2,281	50%	0	0
HUDSON	740,460.09	767.1	965	606,887.38	791	1,756	50%	606,887.38	791
HUMBOLDT	1,824,688.66	1,401.1	1,302	533,550.59	381	1,683	50%	11,469.39	8
IKM	787,601.77	523.1	1,506	184,866.32	353	1,859	50%	82,465.78	158
INDEPENDENCE	1,599,114.17	1,615.7	990	468,190.23	290	1,280	40%	0	0
INDIANOLA	2,714,656.46	3,236.3	839	811,866.87	251	1,090	34%	0	0
INTERSTATE 35	727,206.82	756.6	961	233,904.31	309	1,270	40%	0	0
IOWA CITY	17,297,382.39	10,673.7	1,621	10,002,811.25	937	2,558	50%	0	0
IOWA FALLS	1,367,886.46	1,130.1	1,210	494,313.69	437	1,648	50%	0	0

IOWA VALLEY	676,006.30	697.0	970	427,649.04	614	1,583	50%	0	0
JANESVILLE CONSOLIDATED	408,370.31	369.2	1,106	223,432.79	605	1,711	50%	163,925.26	444
JEFFERSON-SCRANTON	1,506,768.26	1,300.4	1,159	409,390.61	315	1,474	46%	0	0
JESUP	967,555.69	849.1	1,140	313,733.24	369	1,509	48%	106,804.58	126
JOHNSTON	5,183,071.40	3,984.7	1,301	3,649,683.44	916	2,217	50%	3,649,683.44	916
KEOKUK	2,118,194.20	2,322.1	912	1,252,771.92	540	1,452	46%	1,252,771.92	540
KEOTA	841,648.85	415.6	2,025	77,510.77	187	2,212	50%	0	0
KINGSLEY-PIERSON	713,879.24	500.2	1,427	198,464.62	397	1,824	50%	79,962.81	160
KNOXVILLE	1,587,898.23	2,121.0	749	838,367.02	395	1,144	36%	0	0
LAKE MILLS	1,035,705.32	743.2	1,394	238,442.48	321	1,714	50%	0	0
LAMONI	312,201.64	350.4	891	80,124.89	229	1,120	35%	0	0
LAURENS-MARATHON	733,969.85	479.5	1,531	131,812.08	275	1,806	50%	0	0
LAWTON-BRONSON	737,704.57	642.1	1,149	391,342.36	609	1,758	50%	391,342.36	609
LE MARS	3,020,702.17	2,258.6	1,337	724,775.06	321	1,658	50%	0	0
LENOX	395,407.33	391.5	1,010	75,175.89	192	1,202	38%	0	0
LEWIS CENTRAL	2,940,052.33	2,559.2	1,149	1,532,992.94	599	1,748	50%	0	0
LINEVILLE-CLIO	154,228.97	99.5	1,550	18,264.04	184	1,734	50%	0	0
LINN-MAR	5,729,834.12	4,998.0	1,146	4,178,965.97	836	1,983	50%	0	0
LISBON	525,848.63	634.0	829	440,028.18	694	1,523	48%	0	0
LITTLE ROCK	273,674.17	183.0	1,495	44,263.30	242	1,737	50%	0	0
LOGAN-MAGNOLIA	649,890.90	652.4	996	143,970.02	221	1,217	38%	0	0
LONE TREE	636,830.74	429.1	1,484	399,619.99	931	2,415	50%	0	0
LOUISA-MUSCATINE	1,259,182.83	900.4	1,398	240,278.17	267	1,665	50%	188,735.75	210
LUVERNE	371,393.34	111.0	3,346	51,173.66	461	3,807	50%	0	0
LYNNVILLE-SULLY	811,788.64	521.4	1,557	199,868.21	383	1,940	50%	0	0
MADRID	417,693.30	615.3	679	240,091.37	390	1,069	34%	36,636.97	60
MALVERN	568,672.89	400.3	1,421	66,764.22	167	1,587	50%	0	0
MANNING	576,676.88	530.0	1,088	326,134.92	615	1,703	50%	9,633.05	18
MANSON NORTHWEST WEBSTER	1,346,660.41	855.1	1,575	364,720.23	427	2,001	50%	129,658.72	152
MAPLE VALLEY	883,978.67	618.0	1,430	269,248.53	436	1,866	50%	265,399.60	429
MAQUOKETA	1,428,265.22	1,579.5	904	573,378.52	363	1,267	40%	850.63	1
MAQUOKETA VALLEY	1,169,986.08	988.9	1,183	329,247.83	333	1,516	48%	0	0
MARCUS-MERIDEN-CLEGHORN	1,093,725.99	623.5	1,754	227,669.45	365	2,119	50%	0	0
MARION INDEPENDENT	1,664,978.79	1,770.9	940	1,480,698.45	836	1,776	50%	0	0
MARSHALLTOWN	4,255,485.11	5,087.8	836	2,422,120.61	476	1,312	41%	0	0
MARTENSDALE-ST MARYS	465,206.91	532.6	873	140,647.51	264	1,138	36%	0	0
MASON CITY	5,115,827.15	4,482.1	1,141	3,730,479.96	832	1,974	50%	0	0
MEDIAPOLIS	1,290,670.29	963.1	1,340	728,112.30	756	2,096	50%	728,112.30	756
MELCHER-DALLAS	260,942.94	468.0	558	184,986.22	395	953	30%	0	0
MESERVEY-THORNTON	391,108.43	180.4	2,168	140,223.89	777	2,945	50%	0	0
MFL MARMAC	1,099,097.56	1,066.0	1,031	378,267.28	355	1,386	44%	0	0
MIDLAND	1,071,974.11	791.1	1,355	275,935.22	349	1,704	50%	77,407.73	98
MID-PRAIRIE	1,639,353.87	1,244.3	1,317	567,599.02	456	1,774	50%	0	0

MISSOURI VALLEY	1,068,849.72	992.4	1,077	259,629.02	262	1,339	42%	0	0
MOC-FLOYD VALLEY	2,042,488.44	1,408.8	1,450	764,685.85	543	1,993	50%	0	0
MONTEZUMA	863,197.99	552.4	1,563	227,808.04	412	1,975	50%	0	0
MONTICELLO	1,420,552.80	1,076.7	1,319	347,944.00	323	1,643	50%	0	0
MORAVIA	330,813.23	334.2	990	111,625.18	334	1,324	42%	0	0
MORMON TRAIL	391,704.59	313.4	1,250	69,242.11	221	1,471	46%	0	0
MORNING SUN	252,844.39	255.2	991	38,815.99	152	1,143	36%	15,120.18	59
MOULTON-UDELL	248,733.30	312.0	797	106,710.90	342	1,139	36%	0	0
MOUNT AYR	843,176.59	837.1	1,007	182,240.57	218	1,225	39%	0	0
MOUNT PLEASANT	2,192,743.27	2,149.4	1,020	942,702.93	439	1,459	46%	8,092.49	4
MOUNT VERNON	935,306.81	1,059.4	883	879,068.39	830	1,713	50%	0	0
MURRAY	284,616.65	340.2	837	113,722.74	334	1,171	37%	0	0
MUSCATINE	5,566,940.50	5,580.3	998	2,708,853.18	485	1,483	47%	2,708,853.18	485
NASHUA-PLAINFIELD	903,877.08	850.1	1,063	319,373.15	376	1,439	45%	0	0
NEVADA	1,649,895.34	1,628.5	1,013	1,296,136.18	796	1,809	50%	0	0
NEW HAMPTON	1,780,840.86	1,230.6	1,447	478,194.80	389	1,836	50%	0	0
NEW LONDON	432,172.09	577.2	749	258,396.46	448	1,196	38%	13,608.16	24
NEW MARKET	196,839.20	194.4	1,013	36,463.70	188	1,200	38%	3,328.72	17
NEWELL-FONDA	857,786.86	487.9	1,758	180,707.72	370	2,129	50%	0	0
NEWTON	3,694,238.47	3,552.6	1,040	1,347,684.32	379	1,419	45%	0	0
NISHNA VALLEY	567,048.81	302.9	1,872	51,949.33	172	2,044	50%	2,597.51	9
NODAWAY VALLEY	1,004,252.27	883.0	1,137	313,379.69	355	1,492	47%	0	0
NORA SPRINGS-ROCK FALLS	524,750.07	477.0	1,100	255,878.15	536	1,637	50%	0	0
NORTH CEDAR	1,304,516.16	1,013.4	1,287	233,044.89	230	1,517	48%	0	0
NORTH CENTRAL	755,310.91	598.0	1,263	177,708.63	297	1,560	49%	0	0
NORTH FAYETTE	1,174,398.23	1,167.5	1,006	443,979.22	380	1,386	44%	0	0
NORTH IOWA	1,321,099.35	648.1	2,038	237,251.46	366	2,404	50%	0	0
NORTH KOSSUTH	917,908.89	432.5	2,122	211,637.67	489	2,612	50%	0	0
NORTH MAHASKA	868,014.62	587.1	1,478	260,096.80	443	1,922	50%	0	0
NORTH POLK	943,820.45	913.2	1,034	826,413.98	905	1,938	50%	797,037.30	873
NORTH SCOTT	3,365,905.46	2,935.6	1,147	2,301,309.71	784	1,931	50%	2,301,309.71	784
NORTH TAMA COUNTY	864,661.00	547.4	1,580	141,272.79	258	1,838	50%	0	0
NORTH WINNESHIEK	453,492.61	381.4	1,189	190,723.21	500	1,689	50%	190,723.21	500
NORTHEAST	848,095.26	688.0	1,233	292,618.24	425	1,658	50%	292,618.24	425
NORTHEAST HAMILTON	715,337.35	324.0	2,208	109,956.57	339	2,547	50%	0	0
NORTH-LINN	824,664.69	805.8	1,023	569,878.95	707	1,731	50%	0	0
NORTHWOOD-KENSETT	849,744.99	574.3	1,480	144,450.77	252	1,731	50%	0	0
NORWALK	1,320,907.63	2,083.9	634	522,772.72	251	885	28%	0	0
ODEBOLT-ARTHUR	660,264.09	452.0	1,461	135,178.33	299	1,760	50%	0	0
OELWEIN	1,274,624.84	1,632.4	781	585,167.06	358	1,139	36%	0	0
OGDEN	994,523.67	733.0	1,357	260,389.52	355	1,712	50%	0	0
OKOBOJI	2,858,207.75	1,030.0	2,775	850,763.93	826	3,601	50%	835,864.59	812
OLIN CONSOLIDATED	396,135.50	329.8	1,201	105,140.82	319	1,520	48%	0	0

ORIENT-MACKSBURG	511,266.58	312.6	1,636	107,732.09	345	1,980	50%	0	0
OSAGE	1,392,403.98	1,073.0	1,298	354,781.92	331	1,628	50%	0	0
OSKALOOSA	2,496,869.42	2,655.4	940	1,178,818.95	444	1,384	44%	0	0
OTTUMWA	3,143,740.25	4,921.4	639	2,617,326.78	532	1,171	37%	0	0
PANORAMA	1,427,213.33	771.7	1,849	227,034.66	294	2,144	50%	0	0
PARKERSBURG	504,616.51	496.1	1,017	115,523.36	233	1,250	39%	0	0
PATON-CHURDAN	526,796.13	235.4	2,238	74,108.39	315	2,553	50%	0	0
PCM	1,181,354.76	1,046.5	1,129	399,492.53	382	1,511	48%	2,747.77	3
PEKIN	1,107,280.52	771.8	1,435	199,624.22	259	1,693	50%	0	0
PELLA	2,708,175.21	2,126.8	1,273	849,795.05	400	1,673	50%	0	0
PERRY	1,506,716.67	1,824.8	826	602,002.39	330	1,156	36%	0	0
PLEASANT VALLEY	4,306,479.13	3,105.9	1,387	2,434,813.27	784	2,170	50%	2,434,813.27	784
PLEASANTVILLE	559,582.44	713.0	785	272,729.65	383	1,167	37%	0	0
POCAHONTAS AREA	1,326,092.59	806.7	1,644	182,215.74	226	1,870	50%	0	0
POMEROY-PALMER	695,535.98	339.0	2,052	73,460.48	217	2,268	50%	0	0
POSTVILLE	785,148.97	657.1	1,195	257,183.24	391	1,586	50%	51,506.27	78
PRAIRIE VALLEY	1,533,637.19	856.2	1,791	520,314.33	608	2,399	50%	238,927.40	279
PRESCOTT	195,995.46	110.3	1,777	28,279.08	256	2,033	50%	0	0
PRESTON	346,944.96	341.7	1,015	122,841.73	360	1,375	43%	8,081.03	24
RED OAK	1,458,562.16	1,407.5	1,036	522,880.92	372	1,408	44%	521,069.02	370
REMSEN-UNION	1,058,157.59	501.9	2,108	162,394.45	324	2,432	50%	0	0
RICEVILLE	878,765.44	452.5	1,942	162,239.85	359	2,301	50%	0	0
RIVER VALLEY	759,761.96	563.8	1,348	277,230.31	492	1,839	50%	186,011.04	330
RIVERSIDE	1,332,241.91	741.0	1,798	447,539.21	604	2,402	50%	0	0
ROCK VALLEY	879,198.32	535.4	1,642	289,530.51	541	2,183	50%	0	0
ROCKWELL CITY-LYTTON	1,095,325.59	578.5	1,893	128,255.62	222	2,115	50%	0	0
ROCKWELL-SWALEDALE	592,633.41	451.4	1,313	375,703.05	832	2,145	50%	0	0
ROLAND-STORY	1,266,468.44	1,136.7	1,114	868,573.60	764	1,878	50%	0	0
RUDD-ROCKFORD-MARBLE RK	872,317.86	655.3	1,331	289,756.09	442	1,773	50%	0	0
RUSSELL	184,124.52	197.3	933	55,466.97	281	1,214	38%	0	0
RUTHVEN-AYRSHIRE	396,875.07	288.4	1,376	100,371.64	348	1,724	50%	0	0
SAC	586,936.28	530.6	1,106	158,011.50	298	1,404	44%	0	0
SAYDEL	2,162,989.07	1,455.0	1,487	1,332,669.81	916	2,403	50%	1,332,669.81	916
SCHALLER-CRESTLAND	782,785.60	516.4	1,516	154,082.15	298	1,814	50%	0	0
SCHLESWIG	465,458.06	308.0	1,511	110,228.80	358	1,869	50%	0	0
SENTRAL	523,497.99	271.0	1,932	129,103.75	476	2,408	50%	0	0
SERGEANT BLUFF-LUTON	2,364,092.02	1,209.0	1,955	736,852.38	609	2,565	50%	736,852.38	609
SEYMOUR	397,948.84	366.5	1,086	75,929.03	207	1,293	41%	0	0
SHEFFIELD-CHAPIN	528,088.92	352.0	1,500	144,928.25	412	1,912	50%	0	0
SHELDON	1,545,771.05	1,086.0	1,423	457,573.35	421	1,845	50%	0	0
SHENANDOAH	1,197,005.48	1,094.0	1,094	349,360.65	319	1,413	45%	348,860.29	319
SIBLEY-OCHEYEDAN	1,151,119.51	938.6	1,226	224,138.15	239	1,465	46%	0	0
SIDNEY	515,817.17	414.4	1,245	129,744.96	313	1,558	49%	129,744.96	313

SIGOURNEY	739,472.60	744.5	993	106,115.17	143	1,136	36%	0	0
SIOUX CENTER	1,427,541.73	876.4	1,629	476,507.01	544	2,173	50%	0	0
SIOUX CENTRAL	801,886.32	533.2	1,504	275,360.27	516	2,020	50%	0	0
SIOUX CITY	11,344,465.30	14,671.9	773	8,912,397.68	607	1,381	43%	8,879,345.42	605
OLON	1,155,283.85	1,112.5	1,038	1,041,968.40	937	1,975	50%	0	0
SOUTH CLAY	395,802.32	207.0	1,912	139,758.44	675	2,587	50%	0	0
SOUTH HAMILTON	1,192,469.06	778.3	1,532	265,101.37	341	1,873	50%	0	0
SOUTH O'BRIEN COMMUNITY	1,376,135.94	803.9	1,712	349,903.18	435	2,147	50%	0	0
SOUTH PAGE	376,842.39	367.6	1,025	117,657.35	320	1,345	42%	117,657.35	320
SOUTH TAMA COUNTY	1,482,705.62	1,692.0	876	437,288.02	258	1,135	36%	0	0
SOUTH WINNESHIEK	870,524.71	733.4	1,187	366,744.62	500	1,687	50%	366,744.62	500
SOUTHEAST POLK	4,264,297.41	4,484.4	951	4,100,459.02	914	1,865	50%	4,095,463.78	913
SOUTHEAST WARREN	555,119.10	606.0	916	152,616.16	252	1,168	37%	0	0
SOUTHEAST WEBSTER	721,293.55	542.2	1,330	394,838.28	728	2,059	50%	197,419.14	364
SOUTHERN CAL	1,092,770.71	679.2	1,609	173,942.95	256	1,865	50%	0	0
SPENCER	2,260,458.30	2,090.7	1,081	1,415,911.83	677	1,758	50%	0	0
SPIRIT LAKE	2,763,104.66	1,255.9	2,200	1,041,430.89	829	3,029	50%	1,041,430.89	829
SPRINGVILLE	446,066.15	489.9	911	409,618.93	836	1,747	50%	0	0
ST ANSGAR	1,198,209.85	803.6	1,491	253,482.16	315	1,806	50%	0	0
STANTON	261,941.20	279.0	939	103,019.14	369	1,308	41%	103,019.14	369
STARMONT	947,731.47	901.8	1,051	315,359.32	350	1,401	44%	0	0
STORM LAKE	1,666,673.35	1,859.0	897	858,199.23	462	1,358	43%	0	0
STRATFORD	339,783.91	219.6	1,547	86,914.73	396	1,943	50%	11,287.34	51
STUART-MENLO	1,460,421.84	1,034.3	1,412	327,874.34	317	1,729	50%	0	0
SUMNER	858,855.90	710.0	1,210	263,062.20	371	1,580	50%	0	0
TERRIL	451,302.41	221.7	2,036	167,928.63	757	2,793	50%	125,988.76	568
TIPTON	1,068,829.95	899.2	1,189	205,174.78	228	1,417	45%	0	0
TITONKA CONSOLIDATED	391,677.48	231.0	1,696	112,697.48	488	2,183	50%	0	0
TREYNOR	670,882.02	518.1	1,295	298,925.27	577	1,872	50%	0	0
TRI-CENTER	891,504.63	760.4	1,172	357,222.02	470	1,642	50%	6,192.67	8
TRI-COUNTY	510,401.73	379.0	1,347	63,193.49	167	1,513	48%	0	0
TRIPOLI	566,350.91	511.0	1,108	187,705.85	367	1,476	46%	0	0
TURKEY VALLEY	767,892.53	637.7	1,204	265,879.27	417	1,621	50%	88,860.81	139
TWIN CEDARS	424,003.45	475.3	892	189,818.21	399	1,291	41%	0	0
TWIN RIVERS	517,004.92	256.0	2,020	95,473.47	373	2,392	50%	0	0
UNDERWOOD	865,028.76	705.6	1,226	426,158.80	604	1,830	50%	0	0
UNION	1,600,811.73	1,209.0	1,324	649,573.33	537	1,861	50%	505,541.70	418
UNITED	933,798.32	464.7	2,009	187,993.98	405	2,414	50%	0	0
URBANDALE	4,502,133.42	3,222.7	1,397	2,951,749.14	916	2,313	50%	2,951,749.14	916
VALLEY	547,766.53	617.5	887	231,648.28	375	1,262	40%	0	0
VAN BUREN	710,300.66	684.3	1,038	130,996.03	191	1,229	39%	0	0
VAN METER	640,857.86	520.2	1,232	171,326.48	329	1,561	49%	0	0
VENTURA	856,426.77	302.0	2,836	240,222.80	795	3,631	50%	0	0

VILLISCA	492,904.25	464.7	1,061	161,517.60	348	1,408	44%	144,463.48	311
VINTON-SHELLSBURG	1,789,252.08	1,987.1	900	476,612.71	240	1,140	36%	0	0
WACO	674,706.94	611.2	1,104	258,172.80	422	1,526	48%	0	0
WALL LAKE VIEW AUBURN	933,318.45	624.8	1,494	187,397.33	300	1,794	50%	0	0
WALNUT	438,798.73	277.4	1,582	157,706.78	569	2,150	50%	11,353.24	41
WAPELLO	901,130.37	794.0	1,135	81,304.04	102	1,237	39%	1,512.02	2
WAPSIE VALLEY	793,261.54	725.0	1,094	255,704.62	353	1,447	46%	18,987.48	26
WASHINGTON	1,897,009.95	1,739.6	1,090	612,422.95	352	1,443	45%	0	0
WATERLOO	10,359,038.08	10,914.0	949	8,634,557.27	791	1,740	50%	8,634,557.27	791
WAUKEE	3,991,758.30	2,385.4	1,673	783,254.74	328	2,002	50%	0	0
WAVERLY-SHELL ROCK	2,371,036.11	1,981.8	1,196	680,629.01	343	1,540	49%	1,582.29	1
WAYNE	725,562.43	705.6	1,028	125,138.27	177	1,206	38%	0	0
WEBSTER CITY	2,078,600.28	1,705.0	1,219	633,392.02	371	1,591	50%	51,339.17	30
WEST BEND-MALLARD	821,273.74	431.6	1,903	149,475.60	346	2,249	50%	0	0
WEST BRANCH	1,027,845.19	807.1	1,274	260,728.73	323	1,597	50%	0	0
WEST BURLINGTON IND	767,586.09	501.0	1,532	378,760.52	756	2,288	50%	378,760.52	756
WEST CENTRAL	598,374.08	353.1	1,695	134,277.57	380	2,075	50%	0	0
WEST DELAWARE COUNTY	2,026,999.17	1,952.3	1,038	650,005.60	333	1,371	43%	0	0
WEST DES MOINES	18,072,397.05	8,732.6	2,070	7,950,219.48	910	2,980	50%	7,923,294.48	907
WEST HANCOCK	1,066,309.29	704.8	1,513	212,445.86	301	1,814	50%	0	0
WEST HARRISON	813,844.32	505.0	1,612	111,442.15	221	1,832	50%	0	0
WEST LIBERTY	1,143,117.16	1,198.4	954	570,358.97	476	1,430	45%	558,925.78	466
WEST LYON	1,117,489.57	811.3	1,377	261,213.04	322	1,699	50%	0	0
WEST MARSHALL	1,031,666.73	863.2	1,195	411,258.66	476	1,672	50%	0	0
WEST MONONA	959,372.10	693.0	1,384	261,083.87	377	1,761	50%	261,083.87	377
WEST SIOUX	828,173.96	777.1	1,066	422,516.65	544	1,609	50%	0	0
WESTERN DUBUQUE	4,146,531.01	2,649.4	1,565	2,121,625.38	801	2,366	50%	0	0
WESTWOOD	1,375,209.58	730.4	1,883	432,824.19	593	2,475	50%	432,824.19	593
WHITING	432,215.81	248.4	1,740	93,583.31	377	2,117	50%	93,583.31	377
WILLIAMSBURG	1,565,250.48	1,131.2	1,384	695,349.73	615	1,998	50%	0	0
WILTON	1,033,697.71	920.7	1,123	412,670.16	448	1,571	49%	382,277.28	415
WINFIELD-MT UNION	563,676.74	424.6	1,328	171,273.42	403	1,731	50%	3,780.05	9
WINTERSET	1,658,267.10	1,610.9	1,029	544,085.08	338	1,367	43%	0	0
WODEN-CRYSTAL LAKE	341,967.85	196.3	1,742	59,767.91	304	2,047	50%	0	0
WOODBINE	634,385.82	578.0	1,098	128,045.05	222	1,319	42%	1,376.15	2
WOODBURY CENTRAL	643,718.45	629.1	1,023	383,419.22	609	1,633	50%	383,419.22	609
WOODWARD-GRANGER	785,810.64	682.6	1,151	268,396.17	393	1,544	49%	64,114.70	94
TOTAL	578,642,134.44	494,290.7		286,857,512.91	580	645,451		131,695,789.02	

Property tax capacity is the sum of a school district's levies under Iowa Code section 298.2 and 298.18 when the levies are imposed to the maximum extent allowable under law. PPEL may be levied at a maximum of \$1.67 and debt service on bond issues may be levied at a maximum of \$4.05, for a total of \$5.72 per thousand dollars of net taxable valuation and tax increment financing valuation (includes gas and electric valuation).

Budget enrollment for FY02 is the September 2000 certified enrollment.

Property tax capacity per pupil is the quotient of property tax capacity divided by budget enrollment.

Local option sales and services tax capacity means the estimated total that a district would receive if a local option tax is imposed at one percent in all counties.

Local option tax capacity per pupil is the quotient of local option tax capacity divided by budget enrollment.

Capacity per pupil is the sum of the property tax capacity per pupil and the local option tax capacity per pupil and may not be exactly the same as the sum due to rounding differences.

Local match required is calculated as the lower of 50% or the quotient of the capacity per pupil divided by the capacity per pupil of the district at the fortieth percentile (\$1,587.41), multiplied by 50%, but cannot be less than 20%.

Estimated local option sales and services tax revenues for FY02 for districts that are located in a county which has imposed the tax is provided by the Department of Revenue and Finance.

Local option sales and services tax revenues per pupil is the quotient of estimated revenues divided by budget enrollment.

A district that has a local option tax imposed at one percent and has revenues per pupil of more than the statewide average of local option tax capacity per pupil (\$580) is not eligible for this grant. These ineligible districts have been shaded.

Source: Department of Management School Budget Master File, Department of Revenue and Finance Estimates.

APPENDIX B

STATE COMPARISONS FUNDING ISSUES

Factors	Iowa	Ohio	Texas
1. County-based Revenue or credits	LOST tax based on students within the county	Cost of Doing Business Factor	CCE units for property taxing
2. Constitutional Language	"Common schools" in Const. and "alike" in Code	"thorough and efficient" in Const.	"efficient / free schools" in Const.
3. Total funding systems at issue when suit goes to court.	Potential lawsuit will bring entire system into review.	Facility funding prompted entire system unconstitutional.	Entire system found unconstitutional to get all equalized
4. Equalization efforts	Foundation program state aid	Ohio still in court	Tiered system
5. Infrastructure	Vision Iowa, LOST, Debt Service	Grants / loans, local tax effort	Equalized state funds by local effort
6. Timelines / future planning/ bonding etc	Pending litigation, state budget cuts	5 year plans required impossible to long range plan	Bonding not possible during court intervention
7. Litigation Costs	171 Districts contribute funds	Over Million paid by taxpayers in first case	Estimated nearly \$2 million in legal fees
8. Comparison to other state	New York reference in case	Reference to Texas	None
9. Temporary fixes lead to continued issues	Vision Iowa Bill provided some infrastructure funds	Multiple adjustments	Many years of adjusting the foundation plan to tiers
10. Property tax reliance	Ratios of property tax 6:1, LOST 10:1	Heavy reliance on property tax in ruling	Heavy reliance on property tax in ruling

APPENDIX C

Coalition for a Common Cents Solution vs.
State of Iowa

IN THE IOWA DISTRICT COURT FOR WARREN COUNTY

COALITION FOR A COMMON CENTS
SOLUTION, THOMAS A. PHILLIPS,
DANIEL W. FRIEBERG, KATHLEEN R.
FRIEBERG, MICHAEL D. MOORE, MIKE
STAUDACHER, RENE STAUDACHER,
MARK CLARK, MARY CLARK, SUMNER
OPSTAD AND ELODIE OPSTAD,

Plaintiff(s),

vs.

STATE OF IOWA, MARY KRAMER,
PRESIDENT OF THE IOWA SENATE,
BRENT SIEGRIST, SPEAKER OF THE
IOWA HOUSE OF REPRESENTATIVES,
TED STILWILL, DIRECTOR OF THE
IOWA DEPARTMENT OF EDUCATION,
THOMAS J. VILSACK, GOVERNOR OF
THE STATE OF IOWA,

Defendants.

No. _____

PETITION FOR DECLARATORY JUDGMENT,
INJUNCTIVE RELIEF AND JURY DEMAND

I. INTRODUCTION

COME NOW the Plaintiffs and state that the present system of financing public education in Iowa through the School Local Option Sales Tax is unconstitutional. It provides unequal and inadequate educational resources to Iowa's children who live in non-retail rich counties. Specifically, the School Local Option Sales Tax creates a significant disparity in the quality of education Iowa children receive depending on where they live. All of Iowa's students are entitled to an adequate education in safe surroundings. As such the statute deprives children and taxpayers of equal protection and violates their due process rights under the Constitutions of the United States of America and the State of Iowa.

Plaintiffs seek a declaration that the School Local Option Sales Tax statute is unconstitutional under the state and federal constitutions and further ask that Defendants be restrained from acting

under this statute. Plaintiffs ask that this Court order Defendants to formulate a system which provides adequate and equal funding to all Iowa's school children in compliance with Plaintiffs' constitutional rights.

II. PARTIES

1. Plaintiff Coalition for a Common Cents Solution is comprised of superintendents from school districts across the state concerned about school infrastructure, including Indianola and Norwalk school districts which have been in Warren County at all times material to this action.

2. Plaintiff Thomas A. Phillips is a parent of three children who are enrolled in the public schools of Norwalk School District and taxpayer of the State of Iowa and Warren County. Thomas A. Phillips has resided in Warren County at all times material to this action.

3. Plaintiffs Daniel W. and Kathleen R. Frieberg are parents of two children who are enrolled in the public schools of Norwalk School District and taxpayers of the State of Iowa and Warren County. Daniel W. and Kathleen R. Frieberg have resided in Warren County at all times material to this action.

4. Plaintiff Michael D. Moore is a parent of one child who is enrolled in the public schools of Washington School District and taxpayer of the State of Iowa and Washington County. Michael D. Moore has resided in Washington County at all times material to this action.

5. Plaintiffs Mike and Rene Staudacher are parents of four children who are enrolled in the public schools of Indianola School District and taxpayers of the State of Iowa and Warren County. Mike and Rene Staudacher have resided in Warren County at all times material to this action.

6. Plaintiffs Mark and Mary Clark are parents of three children who are enrolled in the public schools of Indianola School District and taxpayers of the State of Iowa and Warren County. Mark and Mary Clark have resided in Warren County at all times material to this action.

7. Plaintiffs Sumner and Elodie Opstad are parents of two children who are enrolled in the public schools of Indianola School District and taxpayers of the State of Iowa and Warren

County. Sumner and Elodie Opstad have resided in Warren County at all times material to this action.

8. Defendant, State of Iowa, has enacted the School Local Option Sales Tax challenged herein and is responsible for meeting the educational needs of the school children of Iowa.

9. Defendant, Mary Kramer, is sued in her official capacity as President of the Iowa Senate.

10. Defendant, Brent Siegrist, is sued in his official capacity as Speaker of the Iowa House of Representatives.

11. Defendant, Ted Stilwill, is being sued in his official capacity as Director of the Iowa Department of Education.

12. Defendant, Thomas J. Vilsack, is being sued in his official capacity as Governor of the State of Iowa.

III. JURISDICTION AND VENUE

13. This Court has jurisdiction over this matter and the parties as the State's policies are in effect and cause detriment in Warren County.

14. Venue is proper in that this is a transitory action and Defendants' actions at issue occur in and effect Warren County.

IV. FACTS

15. At all times mentioned herein the following provisions of the Iowa and United States Constitution were in full force and effect.

16. The Iowa Constitution provides that the State has a duty to encourage "*by all suitable means, the promotion of intellectual, scientific, moral and agricultural improvement.*" Iowa Const. art IX, 2nd, Section 3. The Iowa Constitution broadly establishes a fundamental right to an adequate education in favor of all Iowa school children.

17. The Iowa Constitution prohibits laws that

"grant to any citizen, or class of citizens, privileges or immunities, which, upon the same terms shall not equally belong to all citizens."

Iowa Const. art. I, Section 6. This provision establishes equal protection of the law as a constitutional right in Iowa.

18. The Equal Protection Clause of the Fourteenth Amendment to the federal Constitution prohibits states from

"deny[ing] ... any person within its jurisdiction the equal protection of the laws."

U.S. Const. amend. XIV, Section 1. This provision establishes equal protection of the law as a constitutional right in the United States.

19. The Iowa Due Process Clause mandates that

"no person shall be deprived of life, liberty, or property, without due process of law."

Iowa Const. art. I, Section 9. This provision establishes due process of the law as a constitutional right in Iowa.

20. The federal Due Process Clause prohibits states from

"depriv[ing] any person of life, liberty or property, without due process of law."

U.S. Const. amend. XIV, Section 1. This provision establishes due process of the law as a constitutional right in the United States.

21. Under the Constitution of Iowa, the State has a duty to encourage education. The General Assembly has undertaken to fulfill this responsibility by enacting various statutes to raise and distribute funds to the school districts in Iowa.

22. As illustrated in Iowa Code Chapter 257, Iowa's system of public education is financed through a combination of state assistance and local school district funding. The local school district is responsible for raising the bulk of its portion of school financing through property taxes. If needed, the state then contributes financial aid to the school district up to 87.5% of the cost of educating each pupil (state foundation formula). The purpose of the state foundation formula is "to equalize educational opportunity, to provide a good education for all children of Iowa ..."

23. Funding beyond the base of 87.5% needed to educate a child requires the school district to raise the money through an additional levy of property tax to fund the education of the

children in that district. The impact of the additional property tax levy falls heavily on those districts with lower assessed property values. Thus, property poor districts are required to use additional funding sources in order to provide an adequate education to the district's children. Other property tax levies, bonds, income surtaxes, and combination levies are options available to the school district but, most of these require voter approval, often at a 60% super majority passage rate. Numerous school districts across the state are in dire need of infrastructure repairs but have been unable to pass additional bonds and levies.

24. In 1998, in apparent recognition of the inability of school districts to raise sufficient funds to fix school infrastructure, the State passed the School Local Option Sales Tax. A county wishing to adopt the Local Option Sales Tax for school infrastructure must do so by a county-wide majority vote. Assuming the tax passes, the 1% sales tax is collected by the state at the same time as the state 5% sales tax and is later redistributed directly to the county in which the tax was collected. This money is then available to that county's school districts for infrastructure needs.

25. As explained in Iowa Code Section 422E.1.:

A local sales and services tax for school infrastructure purposes may be imposed by a county on behalf of school districts ...

The maximum rate of tax shall be one percent.

Local sales and services tax moneys received by a county for school infrastructure purposes pursuant to this chapter shall be utilized solely for school infrastructure needs ... "school infrastructure " means those activities for which a school district is authorized to contract indebtedness and issue general obligation bonds ... includ[ing] the construction, reconstruction, repair, purchasing, or remodeling of schoolhouses, stadiums, gyms, fieldhouses, and bus garages and the procurement of schoolhouse construction sites and the making of site improvements ... [and] the payment or retirement of outstanding bonds previously issued for school infrastructure purposes...

*The Lack Of School Infrastructure Funding Is Affecting The
School Districts' Ability to Provide Safe Learning Environments*

26. It is well established that the infrastructure in Iowa schools is in disrepair and in many cases unsafe. According to a 1995 study, there is a back log of \$3.4 billion dollars needed for school infrastructure in Iowa. This is predominantly the result of Iowa's aging school buildings. About 28% or 1199 school buildings in Iowa were built in the 1940s or earlier. About 46% or 1944 school buildings were built in the 1950s or 1960s. These older schools tend to be in rural, non retail counties. These buildings have inadequate and outdated electrical, heating, lighting and plumbing systems, dilapidated roofs and windows, multiple fire hazards and lack accessibility for the disabled, jeopardizing the safety of school children.

27. There have been some improvements since 1995, but the problems with infrastructure remain and threaten the safety of Iowa's school children. For example, in the 1998/1999 school year the following incidents occurred related to infrastructure:

- * In Red Oak, the roof of Webster Elementary fell in.
- * A school building in Quimby had to be vacated due to fire code violations and a lack of exits.
- * In Shenendoah, the middle school had 250 fire code violations and the top floor of the school was condemned.
- * The elementary school in Madrid built in 1915 was destroyed by fire.
- * A Lovilla school building had to be vacated due to boiler problems.
- * The Paton elementary school closed after a fire.
- * A Mountour school building's top floor was closed because of a lack of approved exits.

28. In the last two decades (1980-1999), the number of fires in Iowa' school buildings has almost tripled over the number of fires in the three preceding decades (1950-1979), with 102

annual fires in the 1990's. Old schools with old alarms and difficult exits paths involving several stories provide dangerous conditions in case of emergency.

The School Local Option Sales Tax Creates A Dramatic Disparity in The Dollars Received Per Student Depending Upon Where The Student Lives

29. The inclusion of the School Local Option Sales Tax in the statutory scheme for funding public education makes the total financial resources available to a local school district heavily dependant on the wealth and retail capacity of the school district, which varies dramatically even between the counties that have already passed the tax.

30. More than 50% of all retail sales transactions in Iowa are subject to the School Local Option Sales Tax due to the fact that Iowa's retail centers are clustered in just a few locations throughout the state.

31. The inequality of the tax, based on the dollars generated, is illustrated by the following examples:

- * The West Des Moines School District generates \$976 per pupil from the tax while in Warren County it would generate only \$241 per pupil in Indianola and Norwalk.
- * The tax would only generate \$365 per pupil in Washington if it were passed by the voters.

32. When two school districts of comparable size are considered, it is equally as illogical. Both Starmont school district and Bondurant-Farrar serve the same number of students, but Bondurant can generate \$683 more per pupil than Starmont, a non retail rich county. Yet, if Iowa had a state wide sales tax for education, each student in both districts would receive \$687.

33. School infrastructure has traditionally been funded through local property taxes, resulting in a wide disparity in the ability of school districts to maintain and replace facilities. School districts with low property taxes, such as Plaintiffs' districts, simply do not have the means to bring their aging facilities up to date with property taxes alone.

34. The solution offered by the State Of Iowa--the School Local Option Sales Tax--is flawed. It only helps school districts in counties with retail centers because the statute mandates that the funds raised from the tax be allocated only to the county where it was collected.

Lack Of Adequate Infrastructure Negatively Impacts Student Learning

35. The effect of deteriorating school infrastructure on education and student achievement is significant. Poor school infrastructure impacts the safety, health and over all well being of students while at school. More important, when students are focused on problems with the physical environment, learning is not maximized and the morale of staff and children is affected. A study of overcrowded schools in New York City found that students in such schools scored significantly lower on math and reading exams. In another study, student scores on achievement tests were up to 5% lower in buildings with lower quality ratings in rural Virginia, after an adjustment was made for socioeconomic status. In the District of Columbia, a study found that students in school buildings that were in poor condition had achievement scores 11% below students in schools in excellent condition and 6% below schools in fair condition.

36. Teachers recognize the importance of infrastructure on education. In a recent survey ninety nine percent of teachers in Iowa ranked infrastructure as important for creating a good learning environment and 89% said it was important for teacher retention. Plaintiffs' schools must compete to recruit and retain teachers. Research links good teachers with student learning.

37. In Iowa, if the infrastructure funds are not available from the local option sales tax, the District must draw from its other available funds in order to address the critical infrastructure issues. Thus, funds that could have been used to retain laid-off teachers, raise teacher salaries, lower teacher-student ratios, buy classroom instruction materials or provide needed programing are being spent on infrastructure. Still, many of the schools in non-retail rich counties have continued to age without repair because the funding is inadequate and the problems are costly.

38. One example of how infrastructure issues can impact learning is evident in Shenendoah. Since passing the School Local Option Sales Tax Shenendoah was able to build a new

K-8 school building but it could not afford to address the serious infrastructure and fire code issues in the high school. These issues include a lack of air conditioning, inaccessible bathrooms, inadequate windows, basement flooding and inadequate lighting and electricity. Despite the fact that program dollars are badly needed, the school is forced to direct its funds to infrastructure issues. Furthermore, the property taxes in Shenendoah are already so high that the voters will not pass an Instructional Support Levy. Meanwhile, the school continues to struggle with a high drop out rate, lower than average test scores and teacher recruitment and retention issues in a district with a high at-risk and immigrant population.

39. In the fall, spring and summer, air conditioning is needed to allow schools to stay open and ensure students are able to concentrate on learning. In Washington, none of the current schools have air conditioning. In Shenendoah, on average, as many as 20 days of school are cancelled or compromised due to the heat, in the form of early or all day dismissals.

40. In Indianola, the high school has poor lighting and a known air quality problem, both of which have been shown to have an impact of student learning. Problems associated with poor indoor air quality include drowsiness, lack of concentration and headaches; all of which affect comprehension and motivation of students. Researchers say air quality should be a top priority in schools because children, who are still developing physically, are more likely to suffer due to indoor pollutants. Moreover, student and teacher absences, due to environmental illnesses, impede student achievement. The heating and cooling are also inconsistent in the Indianola high school, interfering with the ability of teachers and students to concentrate.

41. Infrastructure problems also lead to overcrowding. These issues are directly interfering with education of students in Washington. Some of the problems faced by the school have included:

- * Classes have been held in hallways due to a lack of classrooms
- * 7-8 portable classrooms are being used in elementary schools, some of which are 20-25 years old.

- * Ninth graders in Washington can not be moved into the high school, because there simply is not enough room.
- * The library has been used as a special education resource room.
- * Washington High School had to rearrange space to meet student needs and no longer has a cafeteria.

42. Unavailable classroom space in Norwalk has added to the problem of high student-teacher ratios. This year, in order to combat a 30:1 student teacher ratio in Norwalk Middle School, teachers are being required to teach 7 out of 9 class periods, instead of 6 out of 9. This interferes with teacher planning and requires non-teachers to supervise study hall. In Norwalk, bonding capacity simply can not keep up with the growth and infrastructure needs. An addition to an elementary school was built this year, but due to a lack of funding, 4 classrooms were cut from the project and a portable classroom will still be required. New buildings are needed, but the money is not there.

43. Meanwhile, West Des Moines, a retail-rich school district, is using the \$976 per student it collects from the School Local Option Sales Tax to build a seven million dollar athletic center.

44. Outdated infrastructure does not allow for the installation of new technology, including computers, internet and fiberoptic services, on which the future of children education is highly dependant. Old wiring always increases the costs involved in any renovation project. In addition, asbestos in many of these schools, which is currently contained, but not removed, increases the cost of renovation, as well.

Every Iowa Student Has the Right to An Adequate Education

45. When infrastructure funds are not available from the School Local Option Sales Tax, other available funds must be used to fix infrastructure. These funds are depleted to minimally address infrastructure problems and as a result, less money is available for teacher salaries, reducing class size, materials, and programming. While other funding mechanisms are available for programming, such as the Instructional Support Levy, they are almost impossible to get passed in counties such as the Plaintiffs where the property taxes are already sky high and voters will not

support any additional increase. In Norwalk, bonding capacity can not keep up with growth and the schools become more and more crowded. Meanwhile, neighboring counties with retail centers are able to provide an adequate education with better, less crowded and safer facilities, more programming and better teacher salaries and benefits.

46. Counties that are retail rich are able to benefit in a number of long term ways from the revenue they generate from the School Local Option Sales Tax. They are able to pay down their indebtedness, which allows property taxes to decrease. Their property values increase, economic development is spurred and they are better able to keep and attract families and teachers. Every county in Iowa, which struggles with its aging population, as well as its aging schools, deserves these benefits. Each Iowa student has a right to receive an adequate education in a safe environment no matter where they live.

COUNT I:
EDUCATION AS FUNDAMENTAL RIGHT

47. Plaintiff re-alleges and incorporate by reference paragraphs 1 through 47 as though set forth fully herein.

48. The Constitution of the State of Iowa creates a fundamental right to an adequate education in Iowa Const. Article IX, 2nd, Section 3.

49. This fundamental right has been violated by the State of Iowa's decision to place the burden of raising funds for education on the county and local school districts.

50. The system established by the state to fund education is inequitable, does not provide for the basic needs of school children and does not provide equal educational opportunities to school children.

51. The most recent component of the system, the local sales and services tax for school infrastructure further emphasizes this inequality.

52. This statute harms Plaintiffs by depriving them of their fundamental right to an adequate education.

53. The Defendants have violated Article IX, 2nd, Section 3 of the Iowa Constitution by failing to adequately fund education in Iowa

COUNT II:
EQUAL PROTECTION

54. Plaintiff re-alleges and incorporate by reference paragraphs 1 through 54 as though set forth fully herein.

55. Article XIV, Section 1, of the Amendments to the United States Constitution and Article I, Section 6 of the Iowa Constitution prohibits the State from denying its citizens equal protection of the laws.

56. The system established by the state to fund education is inequitable, does not provide for the basic needs of school children and does not provide equal educational opportunities to school children.

57. The most recent component of the system, the local sales and services tax for school infrastructure further emphasizes this inequality.

58. Through this education funding mechanism, plaintiffs are being classified and treated differently on the basis of their residence.

59. Dramatically different education financing is available to Iowa's school children depending on where they live because the local option sales tax for school infrastructure only provides revenue in retail rich counties.

60. Plaintiffs' school districts are similarly situated in all other respects to school districts in retail rich counties, yet Plaintiffs' districts' infrastructure is underfunded and an adequate education can not be provided.

61. Education is a fundamental right and all school children are entitled to the opportunity for an education adequate to meet today's needs.

62. This classification infringes on Plaintiff's fundamental right to education.

63. Students and taxpayers in Iowa are entitled to equal protection of the laws, regardless of geographic location, including their fundamental educational opportunities.

64. All students in Iowa are entitled to receive, at a minimum, that level of education necessary for them to meaningfully exercise the right to free speech, to participate meaningfully in government at all levels, to compete academically and in the job market, and to make economic contributing to society.

65. There is a demonstrable link between adequacy of school infrastructure funding and the establishment of adequate educational levels.

66. The local option sales tax is not narrowly tailored to serve a compelling state interest.

67. Alternatively, the statute is not rationally related to a legitimate governmental interest.

68. This statute harms Plaintiffs by depriving them of their fundamental right to an adequate education that is being provided to school children in retail rich counties.

69. Defendants have violated Article XIV, Section 1, of the Amendments to the United States Constitution and Article I, Section 6 of the Iowa Constitution by failing to adequately fund education in Iowa and failing to provide equal educational opportunities for all children within the state, to the detriment of Plaintiffs.

COUNT III:
DUE PROCESS

70. Plaintiff re-alleges and incorporate by reference paragraphs 1 through 70 as though set forth fully herein.

71. Article XIV, Section 1, of the Amendments to the United States Constitution and Article I, Section 9 of the Iowa Constitution prohibits the state from denying its citizens rights without due process of the law.

72. The system established by the state to fund education is inequitable, does not provide for the basic needs of school children and does not provide equal educational opportunities to school children.

73. The most recent component of the system, the local sales and services tax for school infrastructure further emphasizes this inequality.

74. This education funding mechanism infringes on plaintiffs' fundamental right to an adequate education without due process of law

75. Local option sales tax is not narrowly tailored to serve a compelling state interest.

76. Even if education is not considered a fundamental right, the statute is not rationally related to a legitimate governmental interest.

77. This statute harms Plaintiffs by depriving them of their fundamental right to an adequate education without due process of law.

WHEREFORE, for the reasons set out above, Plaintiff requests that the Court enter a declaratory judgment against the Defendant that the School Local Option Sales Tax statute used to finance public education in Iowa is unconstitutional under the state and federal constitutions, enter an injunction that restrains Defendant from acting under this statute, enter an order that the Defendant to formulate a system which provides adequate funding for education which does not violate Plaintiffs constitutional rights, attorney fees, court costs and such other and further relief as the Court deems just and equitable.

IV. JURY DEMAND

Plaintiffs through their undersigned counsel hereby demands a jury on all issues presented herein.

Respectfully submitted,

Steven P. Wandro	PK0008439
Kimberley K. Baer	PK0014675
Megan A. Claypool	PK0015595
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ATTORNEYS FOR PLAINTIFF

APPENDIX D

NET TAXABLE VALUATIONS PER
BUDGET ENROLLMENT

1990-1991, 1995-1996, and 2000-2001

	1990	1991	1995	1996	2000	2001
Enrollment	Minimum	Maximum	Minimum	Maximum	Minimum	Maximum
Category						
< 250	\$87,290	\$488,392	\$131,836	\$451,574	\$152,131	\$549,020
250-399	99,198	429,137	119,684	397,123	133,380	451,583
400-599	74,347	353,329	75,914	329,716	92,573	350,373
600-999	86,841	318,591	92,043	321,774	111,465	409,970
1000-2499	71,421	283,402	83,181	347,173	93,339	370,462
2500-7499	78,340	231,016	93,575	251,331	104,148	313,393
7500+	71,421	488,392	75,914	451,574	92,573	549,020
State	71,421	488,392	75,914	451,574	92,573	549,020

Source: Iowa Department of Management, School Budget Master Files

Note: Enrollment Categories Determined Total Enrollment Rather Than Certified Enrollment.

APPENDIX E

IOWA SCHOOL DISTRICT EXPENDITURES
PER PUBLIC ENROLLEE ALL FUNDS

District	General	Debt Service	All Funds
Mount Vernon	5588	109	6234
Le Mars	5574	190	6271
Alta	5859	-	6436
West Delaware	5691	88	6481
Treynor	5263	473	6494
Lone Tree	5783	-	6525
Denison	5740	102	6561
Jesup	6056	-	6573
MFL-Mar Mac	5829	19	6583
Audubon	5759	-	6590
Spencer	5886	34	6623
South Tama	5781	-	6645
West Marshall	5788	336	6652
SAC	5527	441	6665
Manning	5724	132	6670
Twin Cedars	5890	145	6676
Earlham	5942	-	6704
Ottumwa	5625	179	6727
Chariton	5843	294	6735
Guthrie Center	5817	194	6750
Center Point -Urbana	5595	459	6759
Davis County	5925	215	6767
Allamakee	6188	-	6810
Bondurant-Farrar	5657	345	6816
Gladbrook	6207	-	6816
Stanton	5612	324	6896
East Buchanan	5879	33	6900
Adel-Desoto-Minburn	5814	339	6938
New London	6058	13	6939
Clarion-Goldfield	5909	197	6948
Underwood	6102	-	6956
Creston	5907	371	6972
Benton	6218	26	6975
Stuart-Menlo	5906	81	6997
Ballard	5778	489	7013
Malvern	6224	-	7019

District	General	Debt Service	All Funds
Fort Madison	5907	165	7026
Hinton	5753	359	7029
Wapello	5890	295	7032
Belle Plaine	6184	-	7034
Cedar Rapids	6190	3	7034
Oskaloosa	6289	6	7035
Sumner	6177	56	7056
MOC-Floyd Valley	5871	455	7057
Logan-Magnolia	5847	435	7087
Greene	6021	-	7093
West Branch	6142	70	7095
West Lyon	6306	194	7100
Denver	6261	-	7103
Battle Creek-Ida Grove	6292	-	7133
Vinton-Shellsburg	6333	91	7138
Pella	5611	638	7139
Carlisle	5869	248	7141
Lynnvile-Sully	6045	173	7150
Odebolt-Arthur	6064	119	7160
Fremont-Mills	6335	7	7161
Dubuque	8650	51	7167
Waverly Shell Rock	5850	253	7177
Nashua-Plainfield	6237	14	7179
Baxter	5977	548	7188
Muscatine	6021	117	7244
Sheldon	5815	176	7246
North Cedar	5931	-	7253
North Fayette	6186	190	7253
Rock Valley	6377	23	7269
Storm Lake	6191	274	7278
Fredricksburg	6106	291	7288
Forest City	6251	415	7289
AR-WE-VA	6567	30	7298
Rockwell City	6296	-	7303
Osage	6233	156	7322
Wilton	6058	288	7331
Bedford	6222	368	7332
Nora Springs-Rock Falls	6445	232	7337
Fairfield	6028	202	7356
Albia	6528	233	7366
Iowa City	5960	157	7386

District	General	Debt Service	All Funds
Woodbury-Central	5916	422	7386
Montezuma	6340	245	7394
Farragut	6615	-	7401
Iowa Falls	6168	285	7416
Alburnett	6610	-	7420
Postville	6419	355	7427
Wall Lake View	6726	-	7429
Belmond-Klemme	6554	67	7443
Wapsie Valley	6689	39	7451
Harlan	5881	423	7459
Decorah	6353	276	7464
Tripoli	6226	198	7465
Eastern Allamakee	6518	138	7469
Knoxville	5667	385	7470
Colfax-Mingo	6523	314	7479
Murray	6410	288	7492
Washington	6498	188	7494
PCM	6161	285	7511
Essex	6060	573	7515
Central	6767	-	7532
Central City	6682	31	7533
Bellevue	6868	-	7535
Indianola	6049	500	7538
Marshalltown	6094	151	7542
AHST	6702	-	7556
Greenfield	6315	490	7564
Jefferson-Scranton	6142	397	7564
Hubbard-Radcliffe	6262	123	7569
Sigourney	6591	346	7573
Riceville	6842	-	7582
Southern Cal	6426	130	7599
Hampton-Dumont	6181	105	7601
Turkey Valley	6585	-	7606
Woodbine	661	327	7607
Nishna Valley	6737	-	7611
Schaller-Crestland	6588	3	7616
Parkersburg	6741	-	7617
Williamsburg	5882	415	7617
Marcus-Meridon-Cleghorn	6810	-	7625
Roland Story	5779	562	7629
Monticello	5901	670	7632

District	General	Debt Service	All Funds
Boyer Valley	7013	-	7633
Lisbon	6498	73	7634
Martensdale-St. Marys	6413	345	7654
North Central	6046	543	7660
Western Dubuque	6658	195	7666
Rockwell-Swaledale	6907	-	7669
Howard-Winneshiek	6540	413	7679
Waterloo	6269	50	7695
North Mahaska	6169	603	7698
East Union	6961	55	7700
Panorama	5854	832	7710
Winfield-Mt. Union	6164	313	7711
Humboldt	6488	251	7725
Union	5955	55	7733
Grundy Center	6215	508	7739
Madrid	6430	260	7741
Clarksville	6570	430	7743
Lamoni	6863	253	7747
Laurens-Marathon	6301	380	7752
Kingsley-Pierson	6130	27	7755
Galva-Holstein	6076	747	7774
Eagle Grove	6870	30	7779
Starmont	6506	574	7781
Clinton	6087	163	7799
Hamburg	6643	196	7801
Council Bluffs	6996	125	7810
Griswold	6577	436	7814
Eldora-New Providence	6619	490	7816
North Linn	6192	413	7821
Newell-Fonda	6917	-	7826
Collins-Maxwell	6344	628	7834
Mid-Prairie	6362	379	7841
Missouri Valley	6321	475	7841
Mason City	6184	310	7842
Grinnell-Newburg	6693	274	7843
West Des Moines	5558	627	7851
St. Ansgar	6356	371	7852
Highland	6643	518	7865
Andrew	6473	-	7878
Lenox	6911	119	7880
Independence	6874	123	7881

District	General	Debt Service	All Funds
HLV	6476	416	7883
Rudd-Rockford-Marblerock	6111	376	7885
Linn-Mar	6368	592	7895
Manson-Northwest Webster	6696	25	7901
Dike-New Hartford	11414	141	7905
West Burlington	5623	1072	7908
Louisa-Muscatine	6191	643	7913
Gilbert	6451	597	7940
Britt / West Hancock	7114	70	7941
Garner-Hayfield	6038	287	7951
Melcher-Dallas	6656	388	7954
Ruthven-Ayrshire	7269	-	7959
Marion	6727	422	7959
South Page	6941	-	7982
Solon	6150	347	7984
Sioux Center	6580	305	7989
Saydel	6056	491	7992
Glenwood	6525	453	7996
Midland	7323	-	7999
Lake Mills	6274	277	8000
Centerville	6845	224	8020
Springville	6683	307	8020
East Marshall	6441	-	8027
C and M	7099	-	8033
Olin	6932	-	8060
Aurelia	7056	-	8066
Northwood-Kensett	6398	544	8066
Calamus-Wheatland	6244	694	8077
Charter Oak-Ute	6834	6	8078
Northeast Goose Lake	6975	490	8085
Glidden Ralston	6700	217	8092
Boone	7119	287	8094
Harris-Lake Park	7109	85	8099
Urbandale	6119	482	8100
Harmony	6400	89	8107
West Central	6908	212	8130
Clear Lake	6717	380	8132
Riverside	6991	64	8137
Winterset	6791	517	8159
Eddyville-Blakesburg	6812	230	8187
Janesville	6992	105	8191

District	General	Debt Service	All Funds
Sidney	6809	659	8192
Akron-Westfield	6897	479	8200
Central Clinton	6462	239	8207
Alden	7211	38	8211
North Kossuth	7509	-	8218
Hartley-Melvin-Sanborn	6097	514	8224
Pomeroy-Palmer	7056	58	8227
Remsen-Union	7519	-	8265
Anamosa	6431	404	8268
Cardinal / Eldon	7287	25	8281
Norwalk	6150	413	8283
North Tama	6240	211	8289
South O'Brien	7367	99	8301
South Winneshiek	7186	354	8328
Central Lee	6336	425	8338
Coon Rapids-Bayard	7166	17	8342
Algona	7198	174	8367
Cedar Falls	6371	54	8376
Pekin	7083	178	8407
Moulton-Udell	7086	420	8408
Sibley-Ocheyedan	6340	351	8411
Maquoketa	6891	174	8456
Newton	5706	411	8457
Van Buren	6778	421	8459
North Polk	6396	456	8468
South Hamilton	6732	521	8469
Colo-Nesco	7242	127	8470
Clarke	5937	501	8485
Northeast Hamilton	7518	-	8517
Clay Central	7443	41	8523
Whiting	7274	379	8548
Corning	5879	331	8566
Valley	5990	1857	8581
Nevada	7059	373	8599
Cleer Creek - Amana	6671	456	8603
Guttenburg	7269	-	8604
Ankeny	5880	667	8620
Little Rock	7669	-	8623
Graettinger	7654	-	8635
Southeast Polk	6415	204	8639
Sioux City	6084	174	8643

District	General	Debt Service	All Funds
Des Moines	6969	43	8651
Clarinda	7407	447	8654
Anthon-Oto	7286	417	8657
West Harrison	7026	826	8662
Waco	6948	681	8691
Wayne	7489	406	8694
Emmetsburg	7178	116	8695
Central Lyon	6864	886	8717
Orient-Macksburg	7604	247	8732
Pleasant Valley	6237	465	8733
Meservey-Thornton	7279	495	8742
Fort Dodge	6532	258	8748
Tri-County	6905	497	8750
Buffalo Center / North Iowa	7527	-	8769
English Valleys	6800	490	8784
Central Decatur	8035	18	8785
Sioux Central	7113	903	8800
Okoboji	7123	405	8811
Anita	7684	-	8825
Tri-Center	6518	408	8846
Prairie Valley	726	610	8854
Preston	7402	-	8912
East Central	7571	-	8920
Spirit Lake	6107	2148	8962
Iowa Valley	6339	281	8971
Seymour	8066	253	8985
Pochahontas	7154	70	8999
Exira	7989	144	9001
Walnut	6987	626	9010
Ventura	7028	1080	9086
Webster City	5924	864	9116
Armstrong-Ringstead	7592	-	9128
Hudson	6187	454	9133
Burlington	6341	171	9134
Oelwein	7053	151	9167
Moravia	7965	301	9206
North Scott	6340	228	9242
West Monona	5951	61	9294
Ackely-Geneva	8352	-	9302
Bettendorf	7152	231	9313
North Winneshiek	8045	362	9315

District	General	Debt Service	All Funds
New Hampton	6520	504	9317
Ogden	6340	618	9317
Maple Valley	8416	-	9334
Mormon Trail	7849	489	9350
Sheffield-Chapin	7552	709	9364
Titonka	8621	-	9397
Mount Pleasant	5798	2537	9399
West Liberty	6666	1726	9402
Charles City	6904	264	9413
Aplington	7990	684	9436
George	8398	43	9446
Maquoketa Valley	6320	633	9496
Ames	7182	442	9519
Columbus	7004	390	9519
Perry	6489	620	9539
East Greene	8380	27	9546
IKM	8772	13	9552
Davenport	6609	125	9579
Woden-Crystal Lake	7802	618	9601
Paton-Churdan	8022	185	9604
Lewis Central	5965	413	9607
Bennett	7498	270	9623
Pleasantville	6550	2059	9626
Mount-Ayr	7856	256	9737
West Sioux	6500	708	9749
College Community	6000	780	9916
River Valley	7595	916	9932
Albert City-Truesdale	8589	207	10002
Keokuk	6460	678	10036
Adair-Casey	7151	425	10063
Luverne	9111	-	10090
Grand	9429	-	10163
Wellsburg-Steamboat Rock	8924	-	10189
Cherokee	7051	502	10197
Fox Valley	8975	-	10203
Russell	9011	75	10246
West Bend-Mallard	7728	305	10274
Dows	6897	-	10276
Atlantic	5740	3721	10282
Danville	6084	903	10383
Allison-Bristow	6609	2942	10456

District	General	Debt Service	All Funds
Edgewood-Colesburg	6079	3564	10461
Cal	9057	-	10538
Mediapolis	6119	1049	10606
BCLUW	7043	608	10638
Tipton	6475	479	10690
Westwood	6091	3654	10695
Shenandoah	6538	615	10705
Estherville	6843	473	10712
Woodward-Granger	9315	468	10808
Johnston	6518	1694	10915
Durant	6149	261	10959
Sentral	8025	154	11018
Garnavillo	9786	59	11103
New Market	10577	-	11200
Keota	7410	830	11214
Boyden-Hull	6591	446	11302
Lineville-Clio	9826	-	11304
Red Oak	6517	611	11400
Terril	8576	-	11442
United	10500	-	11520
Interstate 35	7118	651	11558
Sergeant Bluff-Luton	6647	2879	11670
Fremont	10091	819	11859
Van Meter	6441	2380	11870
Dunkerton	6348	543	11889
Coriwith-Wesley	10846	4	12039
Schleswig	11024	-	12233
Southeast Warren	7154	638	12266
Twin Rivers	10601	512	12325
Southeast Webster	7602	409	12401
BGM	6044	416	12405
Carroll	6445	5277	12623
Gilmore City-Bradgate	11710	-	12848
Waukee	5672	1216	12871
Elk Horn-Kimballton	6161	660	12931
Villisca	5867	585	13024
Diagonal	12075	155	13041
Delwood	13569	-	14019
East Monona	12975	-	14039
Camanche	6837	6588	14345
Morning Sun	13046	-	14350

District	General	Debt Service	All Funds
Deep River-Millersburg	13623	-	14866
Stratford	13567	1145	16043
Prescott	14577	-	16069
South Clay	15104	52	16155
Dallas Center-Grimes	6271	5067	21007

APPENDIX F

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1 1 Section 1. NEW SECTION. 293.1 SCHOOL DISTRICT SALES AND
1 2 USE TAX FUND.

1 3 1. A school district sales and use tax fund is created as
1 4 a separate and distinct fund in the state treasury under the
1 5 control of the department of revenue and finance. Moneys in
1 6 the fund include revenues credited to the fund pursuant to
1 7 section 422.69, subsection 2, and section 423.24,
1 8 appropriations made to the fund and other moneys deposited
1 9 into the fund. The moneys credited in a fiscal year to the
1 10 fund shall be distributed as follows:

1 11 a. A school district located in whole or in part in a
1 12 county that had in effect on March 31, 2001, the local sales
1 13 and services tax for school infrastructure purposes under
1 14 chapter 422E shall receive an amount equal to its guaranteed
1 15 school infrastructure amount as calculated under subsection 2
1 16 if the board of directors notifies the director of revenue and
1 17 finance that the school district wants to receive its
1 18 guaranteed school infrastructure amount. The notification
1 19 shall be provided by July 1, 2001. If notification is not
1 20 received by July 1, 2001, the school district shall receive
1 21 moneys pursuant to paragraph "b". Nothing in this chapter
1 22 shall prevent a school district from using its guaranteed
1 23 school infrastructure amount to pay principle and interest on
1 24 obligations issued pursuant to section 422E.4.

1 25 A school district receiving moneys pursuant to this
1 26 paragraph shall cease to receive its guaranteed school
1 27 infrastructure amount and shall receive moneys pursuant to
1 28 paragraph "b" starting with the fiscal year immediately
1 29 following the fiscal year in which occurs the end of the
1 30 original ten-year period or the date listed on the original
1 31 ballot proposition, whichever is the earlier, as provided in
1 32 chapter 422E. A school district may adopt a plan, as provided
1 33 in section 293.2, subsection 2, to anticipate moneys it will
1 34 receive pursuant to paragraph "b". A school district
1 35 receiving moneys pursuant to this paragraph may elect to
2 1 receive moneys pursuant to paragraph "b" by providing

2 2 notification to receive moneys pursuant to paragraph "b" to
 2 3 the director of revenue and finance and the director of the
 2 4 department of management by February 15 preceding the fiscal
 2 5 year for which the election will apply. Once a school
 2 6 district makes this election it is irrevocable.

2 7 b. Moneys remaining after computations made pursuant to
 2 8 paragraph "a" shall be distributed to school districts not
 2 9 receiving moneys under paragraph "a" on a per student basis
 2 10 calculated by the director of revenue and finance by dividing
 2 11 the moneys available during the fiscal year by the combined
 2 12 actual enrollment for all school districts receiving
 2 13 distributions under this paragraph.

2 14 The combined actual enrollment for school districts, for
 2 15 purposes of this paragraph, shall be calculated by adding
 2 16 together the actual enrollment for each school district
 2 17 receiving distributions under this paragraph as determined by
 2 18 the department of management based on the actual enrollment
 2 19 figures reported by October 1 to the department of management
 2 20 by the department of education pursuant to section 257.6,
 2 21 subsection 1. The combined actual enrollment count shall be
 2 22 forwarded to the director of revenue and finance by March 1,
 2 23 annually, for purposes of supplying estimated tax payment
 2 24 figures and making estimated tax payments pursuant to
 2 25 subsection 3 for the following fiscal year.

2 26 2. a. For purposes of distributions under subsection 1,
 2 27 paragraph "a", the school district's guaranteed school
 2 28 infrastructure amount shall be calculated according to the
 2 29 following formula:

2 30 The district's guaranteed school infrastructure amount
 2 31 equals the product of the county guaranteed school
 2 32 infrastructure amount times the district's county actual
 2 33 enrollment divided by the county combined actual enrollment.

2 34 b. For purposes of the formula in paragraph "a":

2 35 (1) "Base year" means the fiscal year beginning July 1,
 3 1 2000.

3 2 (2) "Base year county taxable sales percentage" means the
 3 3 percentage that the taxable sales in the county during the
 3 4 base year is of the total state taxable sales during the base
 3 5 year.

3 6 (3) "County combined actual enrollment" means the actual
 3 7 enrollment figures determined by the department of management
 3 8 for the county based on the actual enrollment figures reported
 3 9 by October 1 to the department of management by the department
 3 10 of education pursuant to section 257.6, subsection 1.

3 11 (4) "County guaranteed school infrastructure amount" means

3 12 an amount equal to the product of the county's chapter 422E
 3 13 proportionate share times the amount deposited in the school
 3 14 district sales and use tax fund for the current year times the
 3 15 current year county taxable sales percentage divided by the
 3 16 base year county taxable sales percentage.

3 17 (5) "County's chapter 422E proportionate share" means the
 3 18 percentage that the annualized revenues received in the county
 3 19 under chapter 422E for the base year is of one-fifth of the
 3 20 total state sales and use tax revenues collected for deposit
 3 21 into the general fund of the state for the base year.

3 22 (6) "Current year" means the fiscal year for which
 3 23 distributions under this section are being made.

3 24 (7) "Current year county taxable sales percentage" means
 3 25 the percentage that the taxable sales in the county during the
 3 26 current fiscal year is of the total state taxable sales during
 3 27 the current fiscal year.

3 28 (8) "District's county actual enrollment" means the actual
 3 29 enrollment of the school district that attends school in the
 3 30 county for which the county combined actual enrollment is
 3 31 determined.

3 32 (9) "Taxable sales" means sales subject to the state sales
 3 33 and services tax under chapter 422, division IV.

3 34 3. a. The director of revenue and finance within fifteen
 3 35 days of the beginning of each fiscal year shall send to each
 4 1 school district an estimate of the amount of tax moneys each
 4 2 school district will receive for the year and for each quarter
 4 3 of the year. At the end of each quarter, the director may
 4 4 revise the estimates for the year and remaining quarters.

4 5 b. The director shall remit ninety-five percent of the
 4 6 estimated tax receipts for the school district to the school
 4 7 district on or before September 30 of the fiscal year and on
 4 8 or before the last day of each following quarter.

4 9 c. The director shall remit a final payment of the
 4 10 remainder of tax moneys due for the fiscal year before
 4 11 November 10 of the next fiscal year. If an overpayment has
 4 12 resulted during the previous fiscal year, the November payment
 4 13 shall be adjusted to reflect any overpayment.

4 14 d. If the distributions are to school districts described
 4 15 in subsection 1, paragraph "a", the payments to these school
 4 16 districts shall be done on a monthly basis beginning with the
 4 17 month of August.

4 18 Sec. 2. NEW SECTION. 293.2 USE OF SCHOOL DISTRICT SALES
 4 19 AND USE TAX FUND MONEYS.

4 20 1. A school district receiving moneys from the school
 4 21 district sales and use tax fund under section 293.1,

4 22 subsection 1, paragraph "a", shall use the moneys as provided
4 23 on the original ballot proposition pursuant to chapter 422E,
4 24 for the payment of principal and interest on general
4 25 obligation bonds issued pursuant to chapter 296, or section
4 26 298.20 or loan agreements under section 297.36, for payments
4 27 made pursuant to lease or lease-purchase agreements, or for
4 28 payment of principal and interest on bonds issued under
4 29 sections 293.3 and 422E.4.

4 30 2. a. Moneys received by a school district from the
4 31 school district sales and use tax fund under section 293.1,
4 32 subsection 1, paragraph "b", shall be spent for infrastructure
4 33 purposes only according to a plan developed by the board of
4 34 directors. The plan may apply to more than one fiscal year.
4 35 Prior to adoption of the plan, the board of directors shall
5 1 hold a public hearing on the question of approval of the
5 2 proposed plan. The board shall set forth its proposal and
5 3 shall publish the notice of the time and place of a public
5 4 hearing on the proposed plan. Notice of the time and place of
5 5 the public hearing shall be published not less than ten nor
5 6 more than twenty days before the public hearing in a newspaper
5 7 which is a newspaper of general circulation in the school
5 8 district. At the hearing, or no later than thirty days after
5 9 the date of the hearing, the board shall take action to adopt
5 10 the proposed plan.

5 11 b. If the board adopts the plan, moneys received shall be
5 12 used according to the plan unless within twenty-eight days
5 13 following the action of the board, the secretary of the board
5 14 receives a petition containing signatures of registered voters
5 15 equal in number to five percent of the voters in the school
5 16 district who voted at the last general election, asking that
5 17 an election be called to approve or disapprove the action of
5 18 the board. The board shall either rescind its action or
5 19 direct the county commissioner of elections to submit the
5 20 question to the registered voters of the school district at
5 21 the next following regular school election or a special
5 22 election. If a majority of those voting on the question at
5 23 the election favors disapproval of the action of the board,
5 24 the district shall use the moneys received as provided in
5 25 paragraph "c" for the fiscal year.

5 26 At the expiration of the twenty-eight day period, if no
5 27 petition is filed, the board shall use the moneys received
5 28 according to the plan for the duration of the plan. However,
5 29 the board may, at anytime, expend a greater share of moneys
5 30 received for property tax relief than otherwise specified in
5 31 the plan.

5 32 c. If an election is held and the plan is disapproved, as
 5 33 provided in paragraph "b", or if a plan is not approved by the
 5 34 board, moneys received by a school district shall be used for
 5 35 the fiscal year to reduce the following levies in the

6 1 following order:

6 2 (1) Bond levies under sections 298.18 and 298.18A and
 6 3 other debt levies until the moneys received or the levies are
 6 4 reduced to zero.

6 5 (2) The physical plant and equipment levy under section
 6 6 298.2, until the moneys received or the levy is reduced to
 6 7 zero.

6 8 (3) The schoolhouse tax levy under section 278.1,
 6 9 subsection 7, Code 1989, until the moneys received or the levy
 6 10 is reduced to zero.

6 11 Any money remaining after the reduction of the levies
 6 12 specified in this paragraph may be used for any lawful
 6 13 infrastructure purpose of the school district.

6 14 d. For purposes of this subsection, "infrastructure
 6 15 purposes" means those purposes for which a school district is
 6 16 authorized to contract indebtedness and issue general
 6 17 obligation bonds under chapter 296 or to expend tax revenues
 6 18 under section 298.3, the payment of principal and interest on
 6 19 general obligation bonds issued under chapter 296 or section
 6 20 298.20 or loan agreements under section 297.36, payments made
 6 21 pursuant to a lease or lease-purchase agreement, or the
 6 22 payment of principal and interest on bonds issued under
 6 23 section 293.3 or 422E.4.

6 24 Sec. 3. NEW SECTION. 293.3 BONDING.

6 25 A school district may anticipate the amount of moneys to be
 6 26 received pursuant to section 293.1 as provided in this
 6 27 section.

6 28 The board of directors of a school district is authorized
 6 29 to issue negotiable, interest-bearing school bonds, without
 6 30 election, and utilize tax receipts derived from the school
 6 31 district sales and use tax fund for principal and interest
 6 32 repayment. Proceeds of the bonds issued pursuant to this
 6 33 section shall be utilized solely for school infrastructure
 6 34 needs as school infrastructure is defined in section 293.2,
 6 35 subsection 2.

7 1 Bonds issued under this section may be sold at public sale
 7 2 as provided in chapter 75. Notice shall be given and a
 7 3 hearing shall be held as provided in section 73A.12. Bonds
 7 4 may bear dates, bear interest at rates not exceeding that
 7 5 permitted by chapter 74A, mature in one or more installments,
 7 6 be in either coupon or registered form, carry registration and

7 7 conversion privileges, be payable as to principal and interest
7 8 at times and places, be subject to terms of redemption prior
7 9 to maturity with or without premium, and be in one or more
7 10 denominations, all as provided by the resolution of the board
7 11 of directors authorizing their issuance. The resolution may
7 12 also prescribe additional provisions, terms, conditions, and
7 13 covenants which the board of directors deems advisable,
7 14 including provisions for creating and maintaining reserve
7 15 funds, the issuance of additional bonds ranking on a parity
7 16 with such bonds and additional bonds junior and subordinate to
7 17 such bonds, and that such bonds shall rank on a parity with or
7 18 be junior and subordinate to any bonds which may be then
7 19 outstanding. Bonds may be issued to refund outstanding and
7 20 previously issued bonds under this section. Bonds are a
7 21 contract between the school district and holders, and the
7 22 resolution issuing the bonds and pledging tax revenues to be
7 23 received from the school district sales and use tax fund to
7 24 the payment of principal and interest on the bonds is a part
7 25 of the contract. Bonds issued pursuant to this section shall
7 26 not constitute indebtedness within the meaning of any
7 27 constitutional or statutory debt limitation or restriction,
7 28 and shall not be subject to any other law relating to the
7 29 authorization, issuance, or sale of bonds.

7 30 A school district shall be authorized to enter into a
7 31 chapter 28E agreement with one or more cities or a county
7 32 whose boundaries encompass all or a part of the area of the
7 33 school district. A city or cities entering into a chapter 28E
7 34 agreement shall be authorized to expend its designated portion
7 35 of the tax revenues to be received from the school district
8 1 sales and use tax fund for any valid purpose permitted in this
8 2 chapter or authorized by the governing body of the city. A
8 3 county entering into a chapter 28E agreement with a school
8 4 district shall be authorized to expend its designated portion
8 5 of the tax revenues to be received from the school district
8 6 sales and use tax fund to provide property tax relief within
8 7 the boundaries of the school district located in the county.
8 8 A school district is also authorized to enter into a chapter
8 9 28E agreement with another school district which is located
8 10 partially or entirely in or is contiguous to the county. The
8 11 school district shall only expend its designated portion of
8 12 tax revenues to be received from the school district sales and
8 13 use tax fund.

8 14 The governing body of a city may authorize the issuance of
8 15 bonds which are payable from its designated portion of the tax
8 16 revenues to be received from the school district sales and use

8 17 tax fund, and not from property tax, by following the
 8 18 authorization procedures set forth for cities in section
 8 19 384.83. A city may pledge irrevocably any amount derived from
 8 20 its designated portions of the tax revenues to be received
 8 21 from the school district sales and use tax fund to the support
 8 22 or payment of such bonds.

8 23 Sec. 4. Section 298.18, unnumbered paragraph 4, Code 2001,
 8 24 is amended to read as follows:

8 25 The amount estimated and certified to apply on principal
 8 26 and interest for any one year may exceed two dollars and
 8 27 seventy cents per thousand dollars of assessed value by the
 8 28 amount approved by the voters of the school corporation, but
 8 29 not exceeding four dollars and five cents per thousand of the
 8 30 assessed value of the taxable property within any school
 8 31 corporation, provided that the qualified voters of such school
 8 32 corporation have first approved such increased amount at a
 8 33 special election, which may be was held at the same time as 8 34 the
 regular school election prior to July 1, 2001. The 8 35 proposition submitted to
 the voters at such special election 9 1 shall be in substantially the following

form: 9 2 Sec. 5. Section 298.18, unnumbered paragraphs 5 and 6,
 9 3 Code 2001, are amended by striking the unnumbered paragraphs.

9 4 Sec. 6. Section 298.18, unnumbered paragraph 8, Code 2001,
 9 5 is amended to read as follows:

9 6 The ability of a school corporation to exceed two dollars
 9 7 and seventy cents per thousand dollars of assessed value to
 9 8 service principal and interest payments on bonded indebtedness
 9 9 is limited and conferred only to those school corporations
 9 10 engaged in the administration of elementary and secondary
 9 11 education and which have voted to exceed that levy limitation 9 12 prior to
 July 1, 2001.

9 13 Sec. 7. Section 422.43, subsections 1, 2, 4, 5, 6, 7, 10,
 9 14 and 12, Code 2001, are amended to read as follows:

9 15 1. There is imposed a tax of five six percent upon the
 9 16 gross receipts from all sales of tangible personal property,
 9 17 consisting of goods, wares, or merchandise, except as
 9 18 otherwise provided in this division, sold at retail in the
 9 19 state to consumers or users; a like rate of tax upon the gross
 9 20 receipts from the sales, furnishing, or service of gas,
 9 21 electricity, water, heat, pay television service, and
 9 22 communication service, including the gross receipts from such
 9 23 sales by any municipal corporation or joint water utility
 9 24 furnishing gas, electricity, water, heat, pay television
 9 25 service, and communication service to the public in its
 9 26 proprietary capacity, except as otherwise provided in this
 9 27 division, when sold at retail in the state to consumers or

9 28 users; a like rate of tax upon the gross receipts from all
9 29 sales of tickets or admissions to places of amusement, fairs,
9 30 and athletic events except those of elementary and secondary
9 31 educational institutions; a like rate of tax on the gross
9 32 receipts from an entry fee or like charge imposed solely for
9 33 the privilege of participating in an activity at a place of
9 34 amusement, fair, or athletic event unless the gross receipts
9 35 from the sales of tickets or admissions charges for observing
10 1 the same activity are taxable under this division; and a like
10 2 rate of tax upon that part of private club membership fees or
10 3 charges paid for the privilege of participating in any
10 4 athletic sports provided club members.

10 5 2. There is imposed a tax of five six percent upon the
10 6 gross receipts derived from the operation of all forms of
10 7 amusement devices and games of skill, games of chance,
10 8 raffles, and bingo games as defined in chapter 99B, operated
10 9 or conducted within the state, the tax to be collected from
10 10 the operator in the same manner as for the collection of taxes
10 11 upon the gross receipts of tickets or admission as provided in
10 12 this section. The tax shall also be imposed upon the gross
10 13 receipts derived from the sale of lottery tickets or shares
10 14 pursuant to chapter 99E. The tax on the lottery tickets or
10 15 shares shall be included in the sales price and distributed to
10 16 the general fund as provided in section 99E.10.

10 17 4. There is imposed a tax of five six percent upon the
10 18 gross receipts from the sales of engraving, photography,
10 19 retouching, printing, and binding services. For the purpose
10 20 of this division, the sales of engraving, photography,
10 21 retouching, printing, and binding services are sales of
10 22 tangible property.

10 23 5. There is imposed a tax of five six percent upon the
10 24 gross receipts from the sales of vulcanizing, recapping, and
10 25 retreading services. For the purpose of this division, the
10 26 sales of vulcanizing, recapping, and retreading services are
10 27 sales of tangible property.

10 28 6. There is imposed a tax of five six percent upon the
10 29 gross receipts from the sales of optional service or warranty
10 30 contracts, except residential service contracts regulated
10 31 under chapter 523C, which provide for the furnishing of labor
10 32 and materials and require the furnishing of any taxable
10 33 service enumerated under this section. The gross receipts are
10 34 subject to tax even if some of the services furnished are not
10 35 enumerated under this section. For the purpose of this
11 1 division, the sale of an optional service or warranty
11 2 contract, other than a residential service contract regulated

under chapter 523C, is a sale of tangible personal property. Additional sales, services, or use taxes shall not be levied on services, parts, or labor provided under optional service or warranty contracts which are subject to tax under this section.

If the optional service or warranty contract is a computer software maintenance or support service contract and there is no separately stated fee for the taxable personal property or for the nontaxable service, the tax of five six percent imposed by this subsection shall be imposed on fifty percent of the gross receipts from the sale of such contract. If the contract provides for technical support services only, no tax shall be imposed under this subsection. The provisions of this subsection also apply to the tax imposed by chapter 423.

7. There is imposed a tax of five six percent upon the gross receipts from the renting of rooms, apartments, or sleeping quarters in a hotel, motel, inn, public lodging house, rooming house, mobile home which is tangible personal property, or tourist court, or in any place where sleeping accommodations are furnished to transient guests for rent, whether with or without meals. "Renting" and "rent" include any kind of direct or indirect charge for such rooms, apartments, or sleeping quarters, or their use. For the purposes of this division, such renting is regarded as a sale of tangible personal property at retail. However, this tax does not apply to the gross receipts from the renting of a room, apartment, or sleeping quarters while rented by the same person for a period of more than thirty-one consecutive days.

10. There is imposed a tax of five six percent upon the gross receipts from the rendering, furnishing, or performing of services as defined in section 422.42.

12. A tax of five six percent is imposed upon the gross receipts from the sales of prepaid telephone calling cards and prepaid authorization numbers. For the purpose of this division, the sales of prepaid telephone calling cards and prepaid authorization numbers are sales of tangible personal property.

Sec. 8. Section 422.43, subsection 13, paragraph a, unnumbered paragraph 1, Code 2001, is amended to read as follows:

A tax of five six percent is imposed upon the gross receipts from the sales, furnishing, or service of solid waste collection and disposal service.

Sec. 9. Section 422.47, subsection 2, Code 2001, is amended to read as follows:

12 13 2. Construction contractors may make application to the
 12 14 department for a refund of the additional one percent tax paid
 12 15 under this division or the additional one percent tax paid
 12 16 under chapter 423 by reason of the increase in the tax from
 12 17 four to five to six percent for taxes paid on goods, wares, or
 12 18 merchandise under the following conditions:

12 19 a. The goods, wares, or merchandise are incorporated into
 12 20 an improvement to real estate in fulfillment of a written
 12 21 contract fully executed prior to July 1, 1992 2001. The
 12 22 refund shall not apply to equipment transferred in fulfillment
 12 23 of a mixed construction contract.

12 24 b. The contractor has paid to the department or to a
 12 25 retailer the full five six percent tax.

12 26 c. The claim is filed on forms provided by the department
 12 27 and is filed within one year of the date the tax is paid.

12 28 A contractor who makes an erroneous application for refund
 12 29 shall be liable for payment of the excess refund paid plus
 12 30 interest at the rate in effect under section 421.7. In

12 31 addition, a contractor who willfully makes a false application
 12 32 for refund is guilty of a simple misdemeanor and is liable for
 12 33 a penalty equal to fifty percent of the excess refund claimed.

12 34 Excess refunds, penalties, and interest due under this
 12 35 subsection may be enforced and collected in the same manner as
 13 1 the tax imposed by this division.

13 2 Sec. 10. Section 422.69, subsection 2, Code 2001, is
 13 3 amended to read as follows:

13 4 2. a. Unless Except as provided in paragraph "b", or as 13 5 otherwise
 provided, the fees, taxes, interest and penalties
 13 6 collected under this chapter shall be credited to the general
 13 7 fund.

13 8 b. One-sixth of the fees, taxes, interest, and penalties 13 9 collected
 pursuant to division IV shall be credited to the 13 10 school district sales and use
 tax fund created in section 13 11 293.1. 13 12 Sec. 11. Section 422E.1, Code
 2001, is amended by adding

13 13 the following new subsection:

13 14 NEW SUBSECTION. 4. a. This chapter does not apply to any
 13 15 county after the effective date of this Act.

13 16 b. In the case of a county that has in effect on March 31,
 13 17 2001, a local sales and services tax for school infrastructure
 13 18 purposes, the increase in the state sales and services tax
 13 19 under chapter 422, division IV, from five percent to six
 13 20 percent shall replace the county's local sales and services
 13 21 tax for school infrastructure purposes and to this extent the
 13 22 local sales and services tax for school infrastructure
 13 23 purposes is repealed.

ec. 12. Section 423.2, Code 2001, is amended to read as follows:

23.2 IMPOSITION OF TAX.

An excise tax is imposed on the use in this state of tangible personal property, including aircraft subject to registration under section 328.20, purchased for use in this state, at the rate of five six percent of the purchase price of the property. An excise tax is imposed on the use of manufactured housing in this state at the rate of five six 13 33 percent of the purchase price if the manufactured housing is sold in the form of tangible personal property and at the rate of five six percent of the installed purchase price if the manufactured housing is sold in the form of realty. An excise 14 2 tax is imposed on the use in this state of vehicles subject to 14 3 registration or title to the issuance of a certificate 14 4 of title at the rate of five 14 5 percent. An excise tax is imposed on the use of leased vehicles at the rate of five 14 6 percent of the amount otherwise subject to tax as calculated pursuant to section 423.7A. The excise tax is imposed upon every person using the property within this state until the tax has been paid directly to the county treasurer or the state department of transportation, to a retailer, or to the appropriate department. An excise tax is imposed on the use in this state of services enumerated in section 422.43 at the rate of five 14 13 six 14 14 percent. This tax is applicable where services are ordered, furnished, or performed in this state or where the product or result of the service is used in this state. This tax is imposed on every person using the services or the product of the services in this state until the user has paid the tax either to an Iowa use tax permit holder or to the appropriate department.

Sec. 13. Section 423.24, Code 2001, is amended by adding the following new subsection:

NEW SUBSECTION. 2A. One-sixth of all other revenue arising under the operation of this chapter shall be credited to the school district sales and use tax fund created in section 293.1.

Sec. 14. Section 423.24, subsection 3, Code 2001, is amended to read as follows:

3. All other revenue arising under the operation of this chapter not credited as specified in subsections 1, 2, and 2A 14 30 shall be added to the general fund of the state.

Sec. 15. **APPLICABILITY.** This section applies in regard to the increase in the state sales and use taxes from five to six percent. The six percent rate applies to all sales of taxable

14 34 personal property, consisting of goods, wares, or merchandise
 14 35 if delivery occurs on or after July 1, 2001. The six percent
 15 1 use tax rate applies to the use of property when the first
 15 2 taxable use in this state occurs on or after July 1, 2001.
 15 3 The six percent rate applies to the gross receipts from the
 15 4 sale, furnishing, or service of gas, electricity, water, heat,
 15 5 pay television service, and communication service if the date
 15 6 of billing the customer is on or after July 1, 2001. In the
 15 7 case of a service contract entered into prior to July 1, 2001,
 15 8 which contract calls for periodic payments, the six percent
 15 9 rate applies to those payments made or due on or after July 1,
 15 10 2001. This periodic payment applies, but is not limited to,
 15 11 tickets or admissions, private club membership fees, sources
 15 12 of amusement, equipment rental, dry cleaning, reducing salons,
 15 13 dance schools, and all other services subject to tax, except
 15 14 the aforementioned utility services which are subject to a
 15 15 special transitional rule. Unlike periodic payments under
 15 16 service contracts, installment sales of goods, wares, and
 15 17 merchandise are subject to the full amount of sales or use tax
 15 18 when the sales contract is entered into or the property is
 15 19 first used in Iowa.

15 20 Sec. 16. Sections 1 and 2 of this Act, being deemed of
 15 21 immediate importance, take effect upon enactment.

15 22 EXPLANATION

15 23 This bill increases state sales and use tax rates from 5
 15 24 percent to 6 percent, except for motor vehicles where the rate
 15 25 remains at 5 percent. The increased revenues are deposited
 15 26 into a school district sales and use tax fund to be
 15 27 distributed to school districts throughout the state to be
 15 28 used for infrastructure or property tax relief purposes.
 15 29 Because the increase in the state sales tax rate replaces the
 15 30 local option sales and services tax for school infrastructure
 15 31 purposes, those school districts that were receiving revenues
 15 32 from the local option tax may continue to receive, according
 15 33 to a formula, revenues from the school district sales and use
 15 34 tax fund in an amount that approximates what those districts
 15 35 would have received under the local option tax. These
 16 1 districts will receive their distributions first. The
 16 2 remaining moneys will be distributed to the other school
 16 3 districts on a per pupil basis. School districts that were
 16 4 receiving the local option tax may elect to receive the
 16 5 distributions on a per pupil basis rather than pursuant to the
 16 6 formula.

16 7 Revenues received by the school districts according to the
 16 8 formula must be used for the purposes specified in the ballot

16 9 when the local option tax was first passed or to pay principal
16 10 and interest on general obligation bonds, lease-purchase
16 11 agreements, or other loan agreements. Other districts will
16 12 spend the revenues according to an infrastructure plan
16 13 developed by the board of directors of the school district.
16 14 If a plan is not developed by the board or the plan is not
16 15 developed at a reverse referendum, then the revenues will be
16 16 used for property tax relief by lowering the debt service
16 17 levies, the physical plant and equipment levy, the schoolhouse
16 18 tax levy or for infrastructure purposes, in that order. Bonds
16 19 may be issued by a school district, without an election, in
16 20 anticipation of the distributions the district will receive
16 21 from the school district sales and use tax fund.
16 22 The school district debt service levy is also reduced from
16 23 a maximum \$4.05 per \$1,000 of taxable value to \$2.70 per
16 24 \$1,000 of taxable value. However, if the voters in the
16 25 district have voted to exceed the \$2.70 per \$1,000 of taxable
16 26 value levy amount prior to July 1, 2001, then the maximum levy
16 27 may remain at \$4.05 per \$1,000 of taxable value until the
16 28 bonds are retired.
16 29 The bill has some effective date provisions. However, the
16 30 sales and use tax rates are increased as of July 1, 2001.
16 31 LSB 1689HV 79
16 32 mg/cf/24